

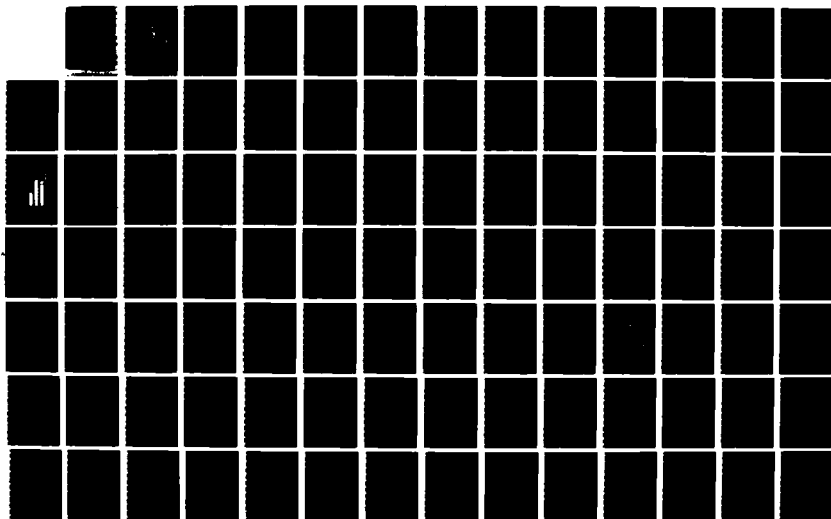
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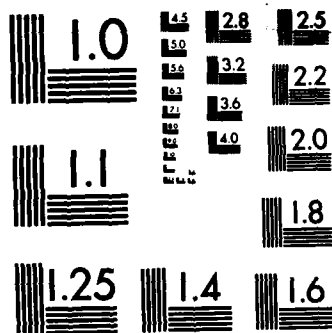
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THESIS

COMPARATIVE EVALUATION OF THE IMPLEMENTATION OF  
OF THE DEFICIT REDUCTION ACT WITHIN THE  
DEPARTMENT OF DEFENSE

by

Wendell D. Tanks

June 1986

Thesis advisor:

Joseph G. San Miguel

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Comparative Evaluation of the Implementation of  
The Deficit Reduction Act Within The  
Department of Defense

by

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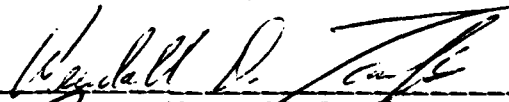
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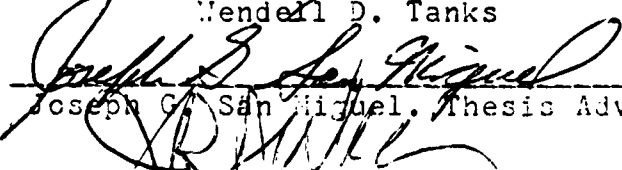
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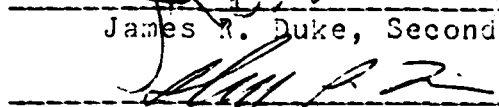
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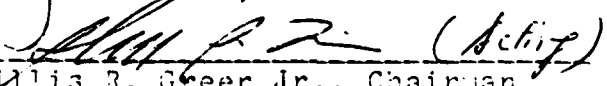
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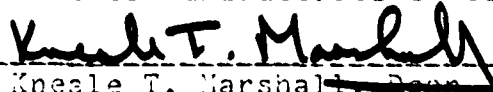
  
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## ABSTRACT

This thesis presents an evaluation of the armed services' plans to implement the cash management phase of the Deficit Reduction Act of 1984. This act follows the Debt Collection Act, Prompt Payment Act, Reform 33, and similar legislation designed to strengthen the control of federal funds, motivate government managers to handle cash more efficiently, and reduce the national deficit. The Deficit Reduction Act is an outgrowth of the President's Private Sector Survey on Cost Control (PPSSCC). This act authorizes the Department of the Treasury to prescribe regulations requiring agencies to implement the PPSSCC's recommendations for accelerating the billing, collection, and deposits of nontax federal receipts. Special attention is given to the higher echelon (Finance Centers) of the armed services who set policies and provide guidance to subordinate activities. The results indicate that the armed services are improving, but problems remain with implementing legislation and regulations.

*except prompt, debt management*

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## I. Introduction

Improvement in the Federal Government's handling and control of public funds has been a persistent goal during the Ford, Carter, and Reagan administrations. During the mid-1970's the initial philosophy for improving governmental money management was to improve controls, but today the emphasis has shifted to using cash management as a means of reducing the Federal Government's debt and the cost of that debt. [Ref. 1].

A barrage of congressional Actions has occurred in recent years (The Prompt Payment Act, The Debt Collection Act, and Federal Managers Financial Integrity Act) which demonstrate that lawmakers and the American voters want government managers to handle cash more efficiently. In addition, the current administration has shown a unique interest as underlined by the creation of the Grace Commission, the President's Council on Integrity and Efficiency, the Reform 88 Project, OMB Circulars: A-123 (Internal Control Systems), A-125 (Prompt Payment), and A-129 (Managing Federal Credit Programs) and OMB Bulletins: 83-6 (Cash Management) and 83-21 (Credit Reporting). These initiatives clearly indicate that effective management of cash is being given high priority. [Ref. 1].

## A. BACKGROUND

In 1983, using his experience as governor of California, President Reagan asked a group from the private sector to study Federal Government operations and to make recommendations for improvements. It was headed by J. Peter Grace, a Democrat and Chairman of the W. R. Grace and Company. He recruited 161 executives from business, professional, and nonprofit organizations. They in turn obtained the services of 2,000 officials from corporations, legal and accounting firms, and other private organizations. The group became known as the Grace Commission (President's Private Sector Survey on Cost Control). [Ref. 3]

In January 1984, Mr. J. Peter Grace's report to President Reagan outlined 2,478 separate, distinct, and specific recommendations. If fully implemented, they could virtually eliminate the reported deficit by the 1990's, versus an alternative deficit of \$10.2 trillion in the decade of the 1990's if no action is taken. A total of \$424 billion could result from the implementation of the Grace Commission recommendations over a three year period. [Ref. 3]

During Congressional testimony in 1984, Mr. Grace cited that cost savings of \$6.339 billion in the area of cash management could be achieved over a three year

period. Besides spending reductions, approximately 15 percent of net deficit reduction could come from collections and timely deposits of cash receipts. [Ref. 3]

Rudolph C. Penner, Director of Congressional Budget Office (CBO) and Charles A. Bowsher, Comptroller General of the United States (head of GAO) testified before the Senate Committee on the Budget on 23 February 1984. Their testimonies summarized the analysis of the Grace Commission recommendations performed by their respective agencies. An analysis of the Grace Commission's work by the Congressional Budget Office showed that a majority of its recommendations can be characterized as management proposals designed to achieve greater efficiencies and help reduce mounting federal deficit. Many of these policy change proposals go far beyond any proposals recently contemplated by Congress, and a majority of them will require congressional actions.

An analysis done by the General Accounting Office (GAO) supports CBO's analysis. GAO reported that approximately two thirds of the recommendations warranted review and had overall merit. GAO has long endorsed strong federal management practices in the area of debt collections. But one third of the recommendations are for actions in progress and already addressed by the enactment of the Debt Collection Act of 1982. GAO agreed that saving

opportunities still exist in this area. Of those proposals with merit, CBO's estimated saving potential totalled nearly \$10 billion. [Ref. 3]

Provisions of the Grace Commission's study were incorporated into the Deficit Reduction Act of 1984. The Deficit Reduction Act was passed by the Senate on 21 March 1984 followed by the House of Representatives on 23 June 1984. The Deficit Reduction Act became law on 13 July 1984. [Refs. 4, 5].

The Deficit Reduction Act of 1984 (Public Law 98-369) was enacted to make changes to tax laws and result in other management improvements to reduce the deficit. The Deficit Reduction Act was divided into Division A (Tax Reform Act of 1984) and Division B (Spending Reduction Act of 1984). Within Division B, Subtitle C of Title VI is the Implementation of the Grace Commission Recommendation. Section 2652 of Subtitle C is the Collection and Deposit of Payments to Executive Agencies. This section gives the Secretary of the Treasury the authority to prescribe the timing and the methods by which agencies will collect and deposit money to the Treasury, and to impose charges for noncompliance in an amount equal to the loss to the general fund. Monies in the fund will be available

without fiscal year limitations for the payment of expenses incurred in developing and carrying out improved methods for collections and deposits. [Ref. 6]

What is unique about the Deficit Reduction Act is that the Treasury can manage cash throughout the Federal Government. In addition, the Treasury has the power to initiate penalties for noncompliance. Within DOD the Deficit Reduction Act is a major issue, and one that is perceived repetitive and impractical in view of the intent of the Debt Collection Act of 1982. But the Deficit Reduction Act emphasizes new methods and timely depositing of funds to help reduce the deficit, whereas the Debt Collection Act emphasized collections only. The problem is how to implement the Deficit Reduction Act within DOD without defeating the intent of Congress and confusing this legislation with the Debt Collection Act. In addition, after Congress saturated the Federal Government with cash management legislation, it was not clear how DOD would implement the Deficit Reduction Act and what incentive would exist for the implementation. [Ref. 6]

#### B. OBJECTIVE AND SCOPE

By improving cash flows through effective cash management, it is estimated that the Federal Government could save over \$2 billion per year. But to acquire the

savings, the resulting programs and the implementation process must be definitive, well planned, and acceptable to the armed services. There are problems that accompany and often precede the implementation process (e.g., funding and manpower requirements, incentives). To understand these problems and the impact of the Deficit Reduction Act on DOD, this study initially reviews the concept of cash management, and describes the implementation and current impact of the Prompt Payment Act and Debt Collection Act on DOD. The major contents of the Deficit Reduction Act and the Treasury's role in its implementation are examined next. An understanding of the Treasury's role provides the justification for its selection as the Act's administering agency.

The next step in the study is an analysis of the implementation of the Deficit Reduction Act within DOD. The analysis examines the Deficit Reduction Act's potential impact on cash management procedures within the armed services. The focus of the analysis is extended to include problems associated with implementing the Prompt Payment and Debt Collection Acts as past initiatives. A comparative evaluation is then provided between the Navy, Air Force, and Army to emphasize the unique problems that each service is confronted with in implementing congressional legislation. In addition, the critical

steps in implementing the Deficit Reduction Act are analyzed to determine if the process can be completed before the September 1986 deadline.

The implementation of congressional legislation within the intent of Congress is not an easy task. It is time consuming and often the required deadlines are not met. What are the contributing factors involved which stagnates the process once a bill becomes law? Given the problems of past initiatives and the experience gained, the implementation of follow-on legislation should be easier. These issues of timing and resulting pitfalls will be addressed in this study.

Finally, a review is done on how the finance centers evaluate and monitor the performance of subordinate activities in the area of cash management. Since the role of the accounting and finance centers is to prescribe regulations, it is important that they know if their regulations are being followed. Based on the review, a determination will be made on whether the services are becoming more or less efficient in the area of cash management.

### C. METHODOLOGY

To obtain data and associated background information, points of contacts were established within the Navy, Army, and Air Force Finance Centers. Current and draft documents on cash management, Prompt Payment, and Debt Collection were obtained from each service. This information, along with congressional records, was then used to perform an analysis and establish the background, current initiatives, problems, and major issues of implementing the Deficit Reduction Act.

The initial literature search revealed that there had been little or no comprehensive research conducted on the implementation of the Deficit Reduction Act. The primary source of information concerning the background of the Act was found in congressional records. The initial literature search was followed by a series of telephone interviews with major policy participants in Washington, D. C. Additionally, contacts were made with Naval Supply Center, Oakland, CA; Naval Supply Center, Bremerton, WA; Naval Supply Center, San Diego, CA; and the Fleet Accounting and Disbursing Center, Pacific, San Diego, CA.

Trips were made to the Navy Accounting and Finance Center in Washington, D. C., the Army Accounting and Finance Center in Indianapolis, IN, and the Air Force

Finance and Accounting Center in Denver, CO. These series of trips provided insights into the operations, problems, and current initiatives of the financial headquarters and established a base for formulating a comparative analysis. At each Finance Center, cash management was the focal issue for discussion because of the current requirement for implementing the Deficit Reduction Act. Follow-up information was obtained by telephone interviews. It should be noted that the perceived problems and recommended solutions contained in this thesis are those of the author and not the various commands.

#### D. ORGANIZATION

This thesis is organized into the following chapters: Chapter II, Cash Management and the Deficit Reduction Act, reviews the concept of cash management and how it applies to the Deficit Reduction Act, Prompt Payment Act, and the Debt Collection Act. Additionally, the current impact and status of the Debt Collection Act and the Prompt Payment Act within DOD are summarized. A determination is made as to which services are best complying with the standards and the intent of Congress. This information will affect the services' incentives and initiatives as they approach the implementation of the Deficit Reduction Act.

Chapter III, Deficit Reduction Act of 1984, presents a perspective of the intent of the Deficit Reduction Act. It examines the components of the legislation and its major provisions. It presents the Treasury's role as the administering agency for the Act, and provides an understanding of the intent of Congress in passing it.

Chapter IV, An Analysis of the Implementation of Deficit Reduction Act of 1984, consolidates the study and examines the major areas within DOD that are affected by the Deficit Reduction Act. It relates the problems experienced by the Prompt Payment and Debt Collection Acts implementation process to the Deficit Reduction Act, addresses how the implementation process will be initiated, and whether it can be completed before the September 1986 deadline. It also examines remaining implementation problems.

Chapter V, Summary, Conclusion, and Recommendation, presents the summary, conclusions, and recommendations of the study. Areas for further research are identified.

## II. CASH MANAGEMENT AND THE DEFICIT REDUCTION ACT OF 1984

Before discussing how the Deficit Reduction Act will enhance cash management, an understanding of the concept of cash management and the Deficit Reduction Act is required. The following sections will provide data for a comprehensive understanding in this area.

### A. CASH MANAGEMENT

"A wise man once observed that the romantic life of a hippopotamus may be only of passing interest to you and me, but it is of intense interest to other Hippopotami."  
[Ref. 2, p. 22]

Before the 1980's, the above reasoning could be applied to cash management in DOD and the Federal Government. There were only a few specialists who showed any interest in cash management. In recent years, however, the interest has been growing. The focus on cash management has been caused by higher interest rates, larger budget deficits, changing economic conditions, data processing, and telecommunications. Each factor has contributed to the increasing cost of money and attention of financial managers to the availability of cash.

#### 1. Concept of Cash Management

The cash management policy for the Federal Government requires that agencies conduct financial activities

in a manner that will maximize the amount of cash available to the Treasury and preclude unnecessary borrowing. The basic components of cash management as perceived by DOD are (1) the acceleration of receipts (the expeditious billing, collecting, and depositing of receipts), (2) the timely disbursement of payments (the scheduling of payments on due dates, not early or late), and (3) the investment of any temporary excess cash balances. The objective is to maximize the amount of funds available to the Treasury. [Ref. 5]

## 2. Cash Management in the Federal Government

Cash management began with President Ford's administration in the mid 1970's. His administration solicited assistance from the First National Bank of Chicago to work with government agencies to recognize and improve their cash management techniques. Until recently, most federal managers were evaluated based on their ability to accomplish the goals of an agency or organization. Presently, due to the federal deficit and public interest, more attention is being given to how efficiently a government agency is managed. [Ref. 1]

In 1977, President Carter initiated a study to find ways to use government funds more efficiently with a view toward reducing federal debt requirements and interest costs. As a result of the study the Treasury Department

named Chapter 2000, Part 5, entitled Cash Management, to the Treasury Financial Manual. This chapter prescribed the procedures that agencies should follow to ensure effective and efficient management of government's cash when developing and implementing regulations, systems, and instructions. The procedures pertain to billing, collections, deposits, and disbursements. [Ref. 1]

An issue that is basic to understanding cash management in the Federal Government is Internal Control. Before any plans are made concerning effective cash management, the Internal Control within an organization must be formally documented and communicated to key personnel throughout the organization [Ref. 7]. Internal Control is defined as:

The plan of an organization, methods, and procedures adopted by management to provide reasonable assurance that obligations and costs are in compliance with applicable laws; funds, property, revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the asset. [Ref. 7]

### 3. Internal Control and Cash Management

Once cash management procedures are identified, internal controls (administrative and accounting controls) are implemented to provide reasonable assurance that:

- a. Collections, deposits, and disbursements are in compliance with applicable procedures.

- b. Funds are safeguarded against waste, loss, unauthorized use or misappropriation; and
- c. Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over the assets (Ref. 7).

The Cash Management Review Guide is an administrative control document used by the Treasury to ensure that an appropriate level of detail and documentation of current processing (collections, deposits, and disbursements) exists and is maintained. The guide is only one of many alternatives available to agencies to assist them in improving and monitoring the flow of cash within their organization. There cannot be cash management without internal controls. [Ref. 8]

In its Circular A-123 (Internal Control Systems), the Office of Management and Budget established detailed guidance to be used by agencies in evaluating and performing an analysis of the adequacy of their Internal Control program. This circular is a unique regulation which ensures that agencies practice and adopt Internal Control procedures. A critical requirement is that the procedures will designate the agency head as the accountable person responsible for the design, installation, evaluation, improvements and periodic reporting on the agency's

Internal Control system. Internal Control is critical to effective cash management. It allows an agency to

have a formal system for documenting and improving its controls over the cash flow. [Ref. 7]

### 3. INFLUENCE OF CONGRESSIONAL LEGISLATION AND ADMINISTRATION REGULATIONS

The change in philosophy toward cash management has brought an influx of Congressional laws and regulations from the executive branch. Two critical pieces of Congressional legislation preceding the Deficit Reduction Act, which focused on the efforts of Congress to strengthen control over federal funds and cash management, were the Prompt Payment Act and Debt Collection Act of 1982.

#### 1. Current status of Prompt Payment Act within DOD

The Prompt Payment Act, as implemented by OMB Circular number A-125, requires federal agencies which procure property or services from a business entity (but which do not make payment for each complete delivered item of property or service by a selected payment date, or take a discount not within a discount period) to pay an interest penalty to the business entity on the amount of payment which is past due. [Ref. 9]

Within DOD, component organizations were directed to pay their bills in a timely manner to avoid the need to make interest payments. The reasoning was valid but not always easily followed in daily operations at lower echelons. The armed services commanders are responsible

for ensuring that payments are performed in a timely manner; when necessary, interest payments are paid on delinquent accounts. In addition, periodic reviews of delinquent payments are performed to determine if patterns exist or the presence of unusual circumstances could be detected. Corrective or disciplinary action would be instituted as required. [Ref. 10]

DOD components analyzed their contractual procedures, and increased training and the authorization level responsible for major acquisitions to improve their performance under the legislation. In addition, DOD was required to submit end-of-year reports summarizing any interest payments paid out during the fiscal year concerned. The Prompt Payment procedures covered all types of transactions involving the procurement of services and materials. [Ref. 10]

The Prompt Payment Act was a statement against inefficiency and poor cash management within the Federal Government. It was also a statement to professional business entities that a change was required. Being paid interest on delinquent bills was not the answer; businesses wanted to be paid on time. The Prompt Payment Act made visible on the national level the poor performances of managers within DOD. It identified and required recording of all delinquent payments. It was anticipated that 100

and its suppliers would experience better business relationships, improved competition for government business, and reduced costs for materials and services.

a. Performance Within DOD

The Prompt Payment Act has had an impact on financial management policies, procedures, and operations for approximately three and a half years. The performance of DOD from FY 83-FY 85 (Figure 1) fluctuated with increases in FY 84 and a decrease in FY 85. Further analysis reveals that during the last two quarters of FY 84 (compared to the first half) a decline of 33% in the value of penalties paid had actually begun. (Figure 2). The rise during the first two quarters of FY 84 can be attributed to the continuous changes in the reporting base during the first year and a half of the Prompt Payment Act. This was caused by an increase in contracts and payments that were subjected to the Prompt Payment Act, and the increased accuracy and expansion of reporting procedures. [Ref. 11]

In FY 85, the number and value of interest and early payments penalties declined further. (TABLE 1). From a cash management perspective, the number of early payments declined 27.3% from a FY 83 total of 1,222 million to a FY 85 total of 881,112. The value of the early payments declined approximately 100%, from \$13,200

# **DOD COMPONENTS** **Interest Penalty Payments**

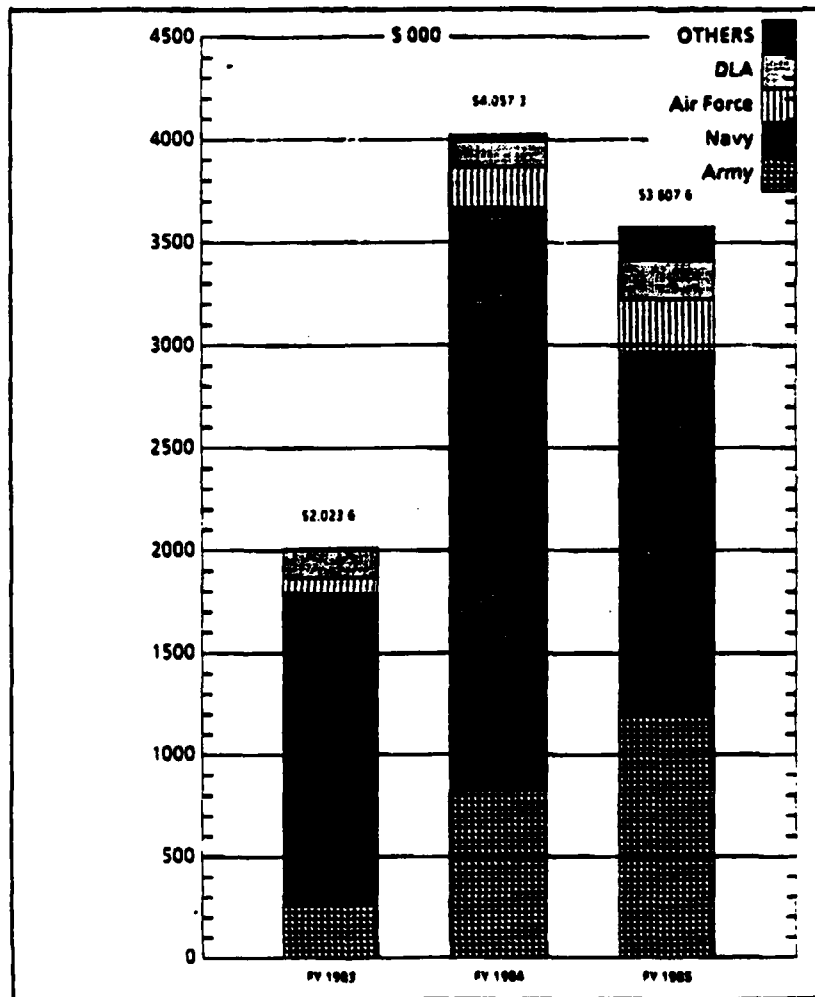


Figure 1

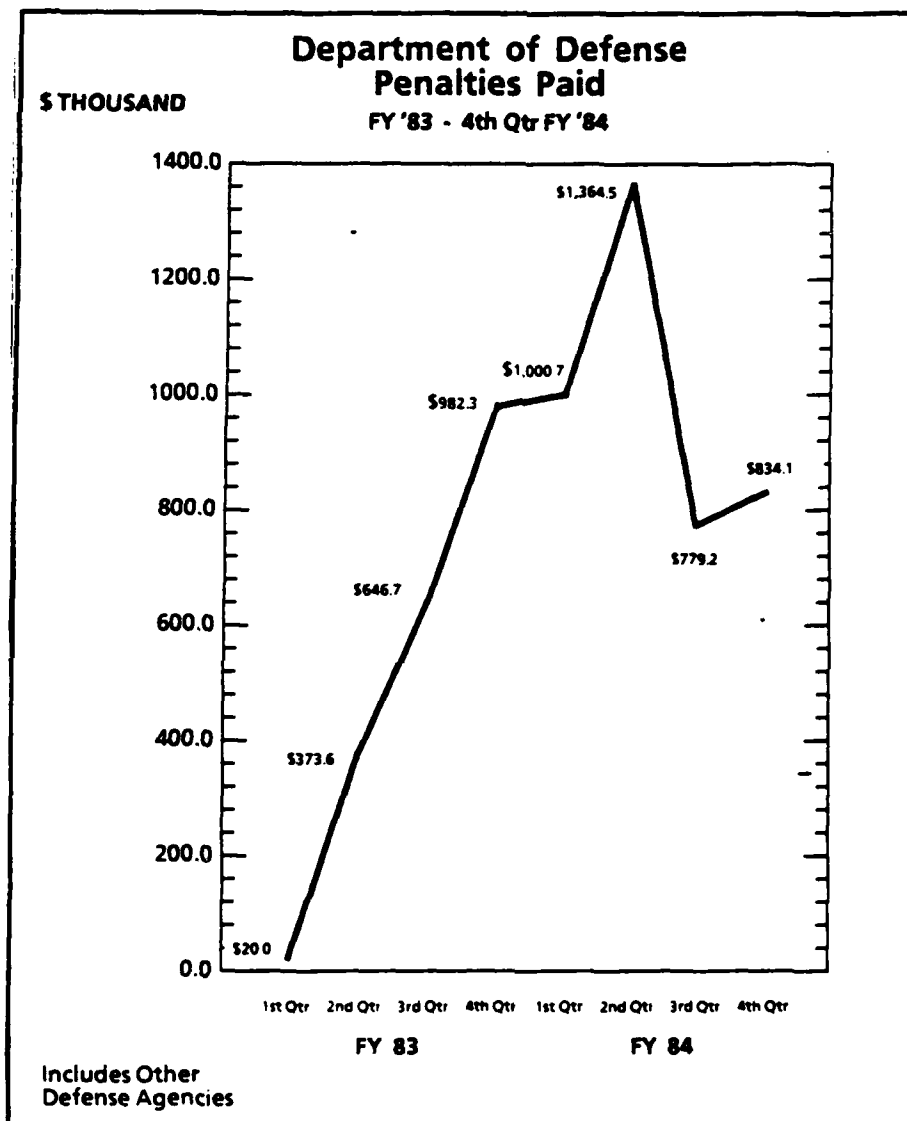


Figure 2

TABLE 1

## DOD INTEREST/EARLY PAY STATISTICS

|                                            | FY 83     | FY 84    | FY 85    |
|--------------------------------------------|-----------|----------|----------|
| No. Interest Penalties                     | 118,689   | 173,926  | 127,379  |
| Value of Interest of Penalties (\$Million) | \$2.019   | \$4.057  | \$3.608  |
| No. Early Payments                         | 1,298,998 | 587,870  | 35,112   |
| Value of Early Payments (\$Million)        | \$13.880  | \$10.747 | \$94.419 |

[Ref. 12]

billion to \$94.419 million. The savings in interest expense by the Treasury, by borrowing at the latest possible date considered necessary to meet a debt (30 days after receipt of proper invoice), is substantial. [Ref. 11]

Overall, DOD is performing well within the intent of the Prompt Payment Act. This performance can be directly attributed to strong initiatives such as the augmentation of computer hardware, a prompt payment task force, and improved internal management control.

b. The Services Performance and Prompt Payment

DOD has an established goal of zero percent for early and late payments. The performance of DOD is a measure of combined effort among the armed services. Individually, the breakdown of performance indicates that there is considerable room for improvements.

(1) Department of the Army. The Prompt Payment Act and its initiatives are of considerable concern to the U. S. Army. From FY 33 to FY 34, interest payments paid by the Army rose by \$551,000. From FY 34 to FY 35, interest payments were \$371,000. Projecting for FY 36, interest payments will be \$301,000 over FY 35 total. Although the amount is increasing at a lower rate, the overall total is excessive. (Figure 3). The major contributor to the Prompt Payment problems the Army

# **ARMY** **Interest Penalty Payments**

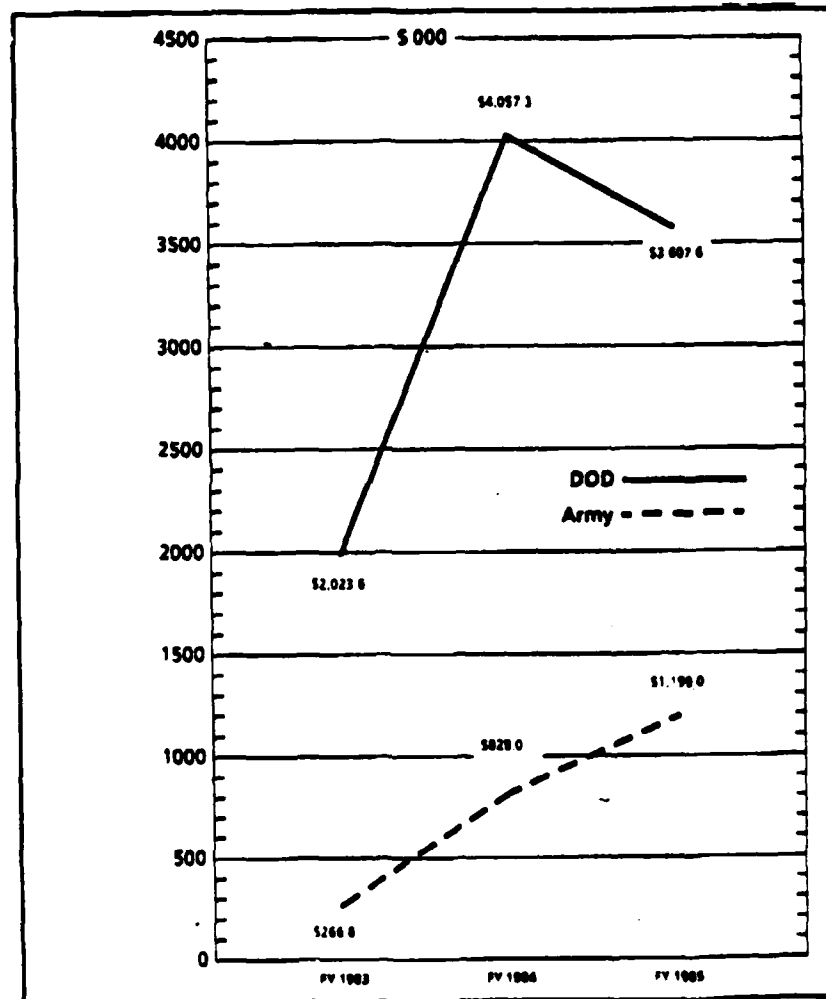


Figure 3

now encounters is linked to the performance of its European organizations, and the Military District of Washington DC. Ten commands made up 37% and 54% of the total interest expense paid for FY 34 and FY 35 respectively. Three out of the top five are within the group located in the European arena with the 13th AFSC, Frankfurt at the top of the list (TABLE 2).

The two main reasons for many of the late payments are (1) late reports and (2) delay in processing by the paying offices. The delay in processing is attributed to a lack of training and personnel turnover that exceeds 50% in some areas per six month period. Most of the critical and manual jobs are held by personnel in low grades who speak limited English and therefore are restricted to jobs which do not provide any transition to more senior positions. In this setting, low morale ultimately contributes to the turnover problem. [Ref. 12]

At some commands in the European community, 50% of the personnel on board are not trained for the jobs to which they are assigned. Consequently, the problem of receiving a majority of the billings late is aggravated by not having adequate and experienced personnel to process the payments when received. Due to these circumstances prompt payment initiatives will continue to be a problem for the Army at its European commands. [Ref. 13]

TABLE 2

COMPARISON OF STATIONS REPORTING SIGNIFICANT PENALTIES  
(\$THOUSANDS)

| FAO                                                                          | FY 85        | FY 84        | INC / (DEC)  |
|------------------------------------------------------------------------------|--------------|--------------|--------------|
| 18th FSC - EUR                                                               | \$296        | \$75         | \$221        |
| MDW                                                                          | 150          | 66           | 84           |
| VII CORP - EUR                                                               | 70           | 69           | 1            |
| FT HUACHUCA                                                                  | 61           | 9            | 52           |
| 45TH FSC - EUR                                                               | 52           | 6            | 46           |
| FT LEWIS                                                                     | 50           | 32           | 18           |
| FT MONMOUTH                                                                  | 39           | 2            | 37           |
| WALTER REED                                                                  | 38           | 151          | (113)        |
| FT IRWIN                                                                     | 26           | 5            | 21           |
| FITZSIMMONS                                                                  | 24           | 28           | (4)          |
| TOTAL                                                                        | <u>\$806</u> | <u>\$443</u> | <u>\$363</u> |
| Percent of total FY<br>interest penalties<br>these ten stations<br>represent | 67%          | 54%          |              |

|                                     | FY 85       | FY 84     |
|-------------------------------------|-------------|-----------|
| Total interest Penalties Incurred * | \$1,200,000 | \$828,000 |
| Total Late Payments                 | 27,274      | 25,944    |

\*FY 86 Straight line Projection is estimated at \$1.5 million

[Ref. 12]

Along with turnover and training, the Army does not have a completely automated data processing system for processing receivables (bills). Only limited portions of the process are automated. But given complete automation, a problem would still exist concerning training and language barriers in Europe. The testing of automated systems is currently in effect at Army satellite commands, with no results anticipated in the immediate future. The manual system in an age of technology is not meeting the standards of efficiency because people do make mistakes. A majority of the foreign nationals and GS-4's in the Washington D. C. area do not have the required training for deciphering complex contracts and determining what payments are due and how they should be paid. [Ref. 12]

Current analysis of the subordinate activities receiving services and goods shows that they are: (1) not forwarding receipt information in the required five day time frame, and (2) causing delays due to a lack of concern. In addition, subordinate activities who are not directly responsible for the payment process but perform a critical function of certification of receipt of material or service are not penalized in any manner if their certification is late or not, or even reported as

all. Who is responsible? There is an unclear designation of responsibility within the chain of command administratively. [Ref. 12]

Another point of major concern involving efficiency is that during FY 85 the Department of the Army made 99.4% of its \$4.8 million in payments on time and avoided interest payments. However, the cost that must be incurred to reach 100% may not be cost beneficial. In this situation considerations must be given to the point of diminishing returns. Achieving 100% efficiency may not be cost effective depending on the amount of incremental labor and efforts required to produce the 100%. But regardless of the percentage, \$1 million is a large sum of money.

Some of the major initiatives the Army is taking to correct the current situation are:

- a. Automate its processing system before FY 87
- b. Urge increased awareness, effort, and efficiency
- c. Clarify Army procedures and responsibilities of localized payments for subordinate offices supporting remote activities. (Ref. 12).

(2) Air Force Performance. The Air Force was actively involved in cash management for many years before the Prompt Payment Act. As a result, the cash management issues and policies evolving from legislation were adopted without major or drastic changes in operations

such as automation or reorganization. Some of the initiatives which had been taken before 1932 are:

- a. A policy of paying cost effective discounts determined by a Treasury formula was adopted.
- b. Headquarters centralized collection assistance for delinquent accounts receivables.
- c. Established requirements for unannounced quarterly verification of cash in the hands of agents, imprest fund cashiers, and change funds where applicable.  
[Ref. 13]

Under the Prompt Payment Act the Air Force interest expense (TABLE 3) was the lowest among the armed services. In FY 33 the Air Force made up only 7% of the total interest paid by DOD. During FY 34 and FY 35, the Air Force's percentages were 5.1% and 7.4% respectively. Although low, these figures are not in compliance with the goals of OMB of zero percent for early and late payments. The interest expense paid was due to: (1) Air Force Accounting and Finance Office administrative error, (2) vendors resisting delayed payment procedures, (3) failures to get contractual and receiving documents to the Accounting and Finance Office on time, and (4) procedural and policy changes caused by higher directives. [Ref. 14]

TABLE 3

## VALUE OF INTEREST PENALTIES IN DOD FY 83 - FY 85

| FY 83     | Value of Interest Penalties | Percentage |
|-----------|-----------------------------|------------|
| DOD       | \$2,019,000                 | 100 %      |
| Air Force | 141,000                     | 7 %        |
| Army      | 267,000                     | 13.2 %     |
| Navy      | 1,531,000                   | 75 %       |
| FY 84     |                             |            |
| DOD       | \$4,057,000                 | 100 %      |
| Air Force | 208,000                     | 5.7 %      |
| Army      | 828,000                     | 20.4 %     |
| Navy      | 2,848,000                   | 70.2 %     |
| FY 85     |                             |            |
| DOD       | \$3,608,000                 | 100 %      |
| Air Force | 266,000                     | 7.4 %      |
| Army      | 1,199,000                   | 33.2 %     |
| Navy      | 1,778,000                   | 49.3 %     |

\*Other agencies within DOD accounted for the remaining totals in percentages and total amount.

[Refs. 12, 13, 14]

The Air Force initiatives to improve its payment processing fall into two general categories: action accomplished and action planned. Under action accomplished, formal regulations on Prompt Payment Act have been developed; all accounting and finance personnel have been indoctrinated and trained in the fundamentals of the Prompt Payment Act and their responsibilities under it, and numerous Air Force technical digest articles have been published. [Ref. 13]

Under action planned, the Air Force will request the cooperation of supporting activities in providing accurate supporting documents, and develop a better working relationship internally (among contracting, accounting and finance, and receiving activities) and externally (vendors). Prompt Payment will continue to be a priority issue until the OMB goal is achieved. Through increased emphasis on cash management and prompt payment processing, the Air Force is destined to achieve its goal. Among the armed services, the Air Force has done a better job of implementing and complying with the intent and requirements of the Prompt Payment legislation.

(3) Navy's Performance. The Navy's performance under the Prompt Payment Act will have a greater effect on the performance of DOD. This is due to the high value of interest expense paid by the Navy (TABLE 4). Statistics

TABLE 4

ARMY DEBT BY CATEGORY  
(\$MILLION)

|                         | SEP 84       | SEP 85       | INC/(DEC)     |
|-------------------------|--------------|--------------|---------------|
| OSAR                    | \$ 49        | \$ 49        | \$ 0          |
| NAF                     | 15           | 2            | (13)          |
| MEDICAL                 | 15           | 8            | (7)           |
| COUPONS                 | 6            | 5            | (1)           |
| CONTR                   | 6            | 6            | 0             |
| PVT AGY                 | 4            | 4            | 0             |
| FAMILY HS               | 4            | 3            | (1)           |
| FOREIGN                 | 4            | 4            | 0             |
| MISC                    | 6            | 3            | (3)           |
| Subtotal                | <u>\$109</u> | <u>\$84</u>  | <u>\$(25)</u> |
| NEW DEBT (AFTER SEP 84) |              |              |               |
| INTEREST                | \$ 0         | \$ 9         | \$ 9          |
| REFOR/MFR               | 0            | 7            | 7             |
| CUPON CON               | 0            | 3            | 3             |
| MIS RCPTS               | 0            | 5            | 5             |
| MISC                    | 0            | 1            | 1             |
| Subtotal                | 0            | 25           | 25            |
| Total                   | <u>\$109</u> | <u>\$109</u> | \$ 0          |

[Ref. 18]

indicate that the Navy possess 75% of the total interest expense paid by DOD during FY 83, 70.2% during FY 84, and 49.3% during FY 85. The positive aspect is that the Navy is getting better. The Navy progressed slowly in its initiative to adapt and perform in the area of cash management.

Working within an environment dominated by ships which remain at sea for long periods, cash management and follow-on initiatives have not received the priority required in past years. The focus was directed totally to supporting the fleet and getting the ships underway. As a result, activities such as the Fleet Accounting and Disbursing Center, Pacific (FAADCPAC, San Diego, CA) have failed to keep pace with the growth and operating tempo affecting its fleet and shore activities, which are supported. In an attempt to catch up with technology and the fleet through automation, FAADCPAC became a leader in paying interest expense (which during one reporting period exceeded \$93,000) prompting changes in leadership at the activity and gaining increasing attention from higher echelons. The learning curve was expensive, but today FAADCPAC through automation has reduced interest payments to \$100. [Refs. 15, 16]

The major causes of the Navy's interest expense are delays in the paying office's receipt of

receiving reports and purchase orders (contracts) and delays caused by the processing within the paying office. The following major initiatives have been taken to reduce interest expense with favorable results:

- a. Automated invoice tracking systems were established at all major bill-paying activities, enabling invoices to be properly scheduled for payment in accordance with the Prompt Payment Act and cash management guidelines.
- b. Management attention was intensified at major claimants having activities with high interest expense.
- c. NAVCONPT intensified its scheduling of Prompt Payment performance monitoring, monthly reporting to Navy-wide commands, and became involved with specific activities responsible for high interest penalties.
- d. Major enhancements were made to computer hardware and ADP systems at two of the largest bill-paying activities. (This alleviated long standing backlogs and ensured improved future processing).
- e. The automated Navy Interest Payment System (NIPS) was refined and expanded to gather and array Navy-wide interest data.

As personnel gained experience and began understanding and applying the technology, the Navy began to improve as indicated by FY 85 results in interest expense. There is a potential for even better results in FY 86 as the Navy finally takes its place among the elites in the area of cash management. [Ref. 46]

## 2. Current Status of Debt Collection Act within DOD

The Debt Collection Act of 1982 allowed federal agencies to report delinquent accounts to private credit bureaus. This would give the agencies the tools they

needed to make federal debt collection effective and efficient. The three objectives for this initiative are:

- a. To have available for the first time both the Federal Government and private sector credit history when evaluating the credit worthiness and financial reliability of applicants requesting federal assistance.
- b. To provide as incentive to delinquent debtors to repay their government debt in a more timely manner by establishing a reporting process that could affect their credit rating and future ability to borrow. [Ref. 17]

Within DOD, the two issues which warranted most attention under the Debt Collection Act were: (1) Delinquent public receivables and (2) Out-of-service Accounts Receivables (OSAR).

With respect to OSARs, the emphasis is on consumer related debts and the ability of the services to collect the debts. These debts are not contractor related, but personal debts of individuals. Collections from contractors are a result of managerial pressures and performance rather than the affect of the Debt Collection Act. Within DOD, the services are primarily concerned with OSAR debts which are directly affected by the Debt Collection Act. [Ref. 10]

The consumer aspect of the OSAR is in two areas: (1) debts owed by members currently drawing pay (called an in-service debt), and (2) debts owed by members

who are no longer in an active duty status drawing pay (called out-of-service debts). These two areas encompass active duty, retired, reserve, and civilian personnel.

[Ref. 19]

In-service debts are trivial when compared to out-of-service debts. A majority of in-service debts are caused by miscalculations of pay which are subject to reconciliations during the following pay period. All services experience some forms of adjustments to member's pay during each month. Occasionally, overpayment results that may go unnoticed for months before being discovered. This occurs in the Army's and Navy's records processing and the Air Force's JUMPS. Normally, reconciliations are easily performed without the member's consent or complaint.

The out-of-service debt is not subject to as much manipulation. Within DOD it is the focus of the Debt Collection Act. The main cause of the out-of-service debt is the unplanned separation of military members from service for various reasons (humanitary, unsatisfactory performance, discipline, drug or alcohol abuse, fraud, parenthood, or pregnancy). In situations where a member has received a bonus or has excess leave in his record, those amounts fall into the OSAR category. OSAR is also affected by advance pay, improperly paid entitlements, and lost of equipment under custody of an individual who has separated

from the service. The excess leave and bonus are nominal when applied to an individual, but measured out over the total population of the service the amount is excessive and warrants the attention of senior officials and Congress. That is one the initiatives of the Debt Collection Act. Each branch of the service has a different system of accounting but each faces the same problems of out-of-service debts. [Ref. 13]

There are different approaches in analyzing the concept of OSAR. The Debt Collection Act provides a series of steps for out-of-service debt collection with a write-off being the final solution if the process fails. The out-of-service debt collection process has eleven steps:

- a. Identify the debt.
- b. Establish the locale of the debtor.
- c. Progressively stronger demand letters (three each)
- d. Interest, administrative, and penalty charges computed.
- e. Rebuttals and administrative review.
- f. The waiver process
- g. Administrative offset.
- h. Credit reporting process.
- i. Credit collection process.
- j. Referral to Justice.
- k. Write-off process.

These steps are performed in a manner of due process to ensure all reasonable effort is made to collect a debt prior to initiating a write-off of the account. [Ref. 20]

a. Army's Performance

Among the services, the Army seems to perform more effective in complying with the Debt Collection Act, in spite of Senator Proxmire's Golden Fleece award which was given to the Army for the month of March 1986 (the award is given to the agency which does the worst job of collecting out-of-service debt for a given month). The Army's main frame computer has OSAR files already established which allow the Army to respond to requirements posed by the Debt Collection Act, whereas other services must first develop the capability. Table 4 shows the complete breakdown of the Army's receivable debts, with OSAR being the leading category for FY 84 and FY 85 with a \$49 million debt (the differences among the services occur here because the Air Force has contractors as its major debt and the Navy has foreign debt as their leading category) but each service has a significant OSAR debt. TABLE 5 is a detailed analysis of OSAR. Bonuses and early separations are major contributors to out-of-service debt. [Ref. 20]

TABLE 5  
DETAILED OSAR ANALYSIS  
(\$MILLION)

|            | FY 85       | FY 84       | INC/(DEC) |
|------------|-------------|-------------|-----------|
| Bonus      | \$24        | \$24        | \$ 0      |
| Early sep  | 14          | 13          | (1)       |
| Excess lv  | 3           | 3           | 0         |
| Ros/gpld   | 3           | 3           | 0         |
| Non Entit  | 4           | 5           | 1         |
| Other      | 1           | 1           | 0         |
| Total OSAR | <u>\$49</u> | <u>\$49</u> | \$ 0      |

[Ref. 18]

TABLE 6 is a detailed Army projection of a \$17 million reduction for FY 86 due to referables being passed to the Justice department, collection agencies assistance, and other debts becoming noncurrent. Because of its expediency in adjusting to the requirements of the Debt Collection Act with automation, the Army has focused management attention on initiatives towards not only reducing the debt but also establishing means of debt avoidance. Under OSAR, the Army is performing a better job of screening personnel for outstanding debts prior to separation; is doing a better job of tracking early separation payments; is profiling bonus debtors; and is reducing where applicable advance leave status for its members. [Ref. 20]

b. Air Force Performance

The Air Force's largest debt category is contractual debts, with OSAR at \$13 million. (TABLE 7). The Air Force currently does not possess any automation to address the requirements of the Debt Collection Act. A system is expected to be operational by September 1986. The proposed system will possess the capability to interface with an accounting and finance system, in addition to all other delinquent accounts. The lack of automation has forced the Air Force to focus its attention on debt prevention, which has been successful in minimizing new

TABLE 6  
ARMY DEBT PROJECTIONS

Detailed OSAR Analysis  
(\$Million)

|            | SEP 84 | MAR 86 | INC/(DEC)      |
|------------|--------|--------|----------------|
| Bonus      | \$24   | \$24   | \$ 0           |
| Early sep  | 14     | 13     | (1)            |
| Excess lv  | 3      | 3      | 0              |
| Ros/gpld   | 3      | 3      | 0              |
| Non Entit  | 4      | 5      | 1              |
| Others     | 1      | 1      | 0              |
| *Less: new | 0      | (17)   | (17)           |
| Referrals  |        |        |                |
| Total OSAR | \$49   | \$32   | <u>\$ (17)</u> |

\*Referrals (incr after SEP 84)

|              |     |      |      |
|--------------|-----|------|------|
| Justice dept | \$1 | \$ 5 | \$ 4 |
| Coll agy     | 0   | 6    | 6    |
| Non cur      | 8   | 15   | 7    |
| Total Refer  | \$9 | \$26 | \$17 |

[Ref. 18]

TABLE 7  
AIR FORCE SCHEDULE OF TOTAL DELINQUENCIES

|                                               |                         |
|-----------------------------------------------|-------------------------|
| Out-of-service debt                           | \$ 18,234,358.83        |
| Payroll overpayments                          | 1,802,164.60            |
| Contractual debts                             | 69,525,486.24           |
| Foreign governments                           | 876.46                  |
| Industrial/stock fund                         | 12,659,137.59           |
| Freight claims                                | 421,096.81              |
| Other (information not available<br>at AFAFC) | 12,942,037.17           |
| Total delinquencies                           | <u>\$115,942,037.17</u> |

[Ref. 44]

debt. But until their automation catches up, the Air Force will fall short in complying with the provisions of the Debt Collection Act. [Ref. 21]

#### c. The Navy Performance

The Navy automated system, like the Air Force's, has been overwhelmed by the requirements of the Debt Collection Act. The Navy has an automated system but it lacks the capability to interface and submit data to the OSAR collection process ( e.g., the system lacks the capability to initiate referrals to collection agencies or carry out the delivery of three debt letters). The Navy is seeking additional software to provide increased capability with an implementation date during the latter part of FY 86. The Navy's pay system is more complex than the other services and this contributes to the problem of implementation. On a comparative scale, the Navy has the furthest to go in complying with the required provisions of the Debt Collection Act. As of May 1986, an appropriate system for solving the debt collection problems has not been identified. [Ref. 16]

#### C. DOD AND CASH MANAGEMENT

On 14 November 1977, President Carter issued a directive requiring a study be conducted to examine cash management policies and practices throughout the Executive branch. The study would be performed jointly by his staff and the

Treasury Department. The intent of the study was to identify areas where modern cash management techniques could be applied to the federal cash flow to reduce federal debt requirements and interest carrying costs. Three months later, a General Accounting (GAO) report stated that federal agencies were paying their bills in a timely manner, but in certain cases delays had occurred and in others bills were being paid earlier than necessary. Both the GAO report and the President's staff report of March 1978 recommended improving contractual agreements to ensure bills are paid when required, and not early nor late. [Ref. 22]

Resulting from the reports, the Treasury Department issued Chapter 8000 of Treasury Fiscal Requirements Manual (I-TFRM 6-8000) entitled Cash Management. The desired goal was to maximize the cash balance available to the Treasury and to prevent unnecessary borrowing. After the publication of the chapter, DOD initiated a study to evaluate the armed services cash management programs. Among the services the performances varied. What proceeded afterwards was a series of Congressional Acts with an underlying intention of improving cash management. [Ref. 22]

## D. AN EXAMINATION OF THE INTENT OF THE LAW

Among economists and legislators, the majority agree that current budget trends are not sustainable and that federal spending and the deficit are out of control. During FY 85, statistics show revenues for the Federal Government increased by \$67.5 billion. This amount was exceeded by the growth in federal outlays of \$94 billion, the largest one-year increase in American history. The deficit during FY 85 grew from \$135.3 billion to \$211.9 billion. TABLE 8 shows that between FY 63 and FY 85 Federal spending expanded from \$111.3 billion to \$946 billion. This growth represented a 144% increase over the base year. Further analysis reveal that the federal outlay share of the Gross National Product (GNP) followed the growth in the federal budget. The FY 85 outlay of \$734 billion represented 24.7% of GNP which was far above the 21% average. As a result, the FY 85 budget deficit of \$211.9 billion was approximately 5.5% of GNP. The growth in federal spending is the major cause of the current deficit. [Ref. 23]

Congress is designated the guardian of the Treasury's purse. But during the past few years, Congress's control has been gravely weakened due to decline in interdependence among agencies, committees, and related programs.

TABLE 8

FEDERAL BUDGET AND THE GROSS NATIONAL PRODUCT, SELECTED YEARS  
(\$BILLIONS)

| Year | Budget Receipts |                | Outlays |                | Deficit/Surplus |                |
|------|-----------------|----------------|---------|----------------|-----------------|----------------|
|      | Amount          | Percent of GNP | Amount  | Percent of GNP | Amount          | Percent of GNP |
| 1963 | \$106.6         | 14.4           | \$111.3 | 19.3           | \$4.7           | 1.0            |
| 1968 | 153.0           | 18.4           | 178.1   | 21.4           | -25.2           | 3.0            |
| 1973 | 230.8           | 18.4           | 245.7   | 19.6           | -14.9           | 1.2            |
| 1978 | 399.7           | 19.1           | 458.7   | 21.9           | -59.0           | 2.8            |
| 1980 | 517.1           | 20.1           | 590.9   | 22.9           | -73.8           | 2.9            |
| 1981 | 599.3           | 20.8           | 678.2   | 23.5           | -78.9           | 2.7            |
| 1982 | 617.8           | 20.3           | 745.7   | 24.5           | -127.9          | 4.2            |
| 1983 | 600.6           | 18.6           | 808.3   | 25.1           | -207.8          | 6.4            |
| 1984 | 666.5           | 18.6           | 851.8   | 23.8           | -185.3          | 5.2            |
| 1985 | 734.0           | 19.1           | 945.9   | 24.7           | -211.9          | 5.5            |

[Ref. 44]

The independence of the authorizing committees and appropriation subcommittees enabled each to conduct its business with little regard for the spending intention of the other. Since each committee and subcommittee worked for budget increases in programs under its jurisdiction, committees had even less incentive to work in an cooperative manner. Congress has sought to "shore up" its guardianship by imposing budget committee control over appropriations. The act only placed subcommittees in a position where requests are submitted at an amount beyond a required amount, to allow for cuts by budget committees at the next congressional level. It seems that everyone in congress has become a strategist for spending. With the increased emphasis on the federal debt, the new buzz word has become deficit reduction. [Ref. 24]

#### E. SUMMARY

The cash management concept evolved during the 1970's. Increase emphasis resulted as the deficit and public interest increased. Congress and the administration in power assumed major roles in changing procedures, regulations, and laws governing and affecting cash management. The philosophy of cash management has shifted from a measure of efficiency to a means of reducing the deficit. The Debt Collection and Prompt Payment Acts, Reform 88, and similar legislation are initiatives that were designed to

improve efficiency and not to address the issue of deficit reduction. But with the Deficit Reduction Act, the emphasis has shifted to deficit reduction. Within DOD, the performance of the services vary according to what legislation is discussed. Overall, the performance thus far is encouraging; but deficiencies still exist when discussing the two major pieces of legislation: The Prompt Payment Act and The Debt Collection Act.

### III. Deficit Reduction Act of 1984

The Deficit Reduction Act represented a preliminary method by Congress to reduce the federal debt through improved changes in collection and deposit procedures that increase the availability of nontax funds to the Treasury. As with any major legislation, many hours or even years will be spent on its interpretation before any formal implementation, and opinions will differ. This chapter will address some of the key provisions of the Deficit Reduction Act and its interpretation by the Department of the Treasury. In particular, the focus will be on an examination and review of that portion of the act entitled Collection and Deposit of Payments to Executive Agencies. [Ref. 6]

#### A. BACKGROUND

The Deficit Reduction Act was enacted in 1984 to make changes to the tax laws and to produce other management improvements to reduce the deficit. [Ref. 6]. The Senate Committee on Finance originated the bill and the language for the Deficit Reduction Act. A series of the most significant events leading to the Act which occurred are listed in Appendix A.

In the House of Representatives the House Committee on Ways and Means completed its actions on 23 June 1984. The Tax and Spending provisions of H. R. 4170 were passed on 29 June 1984.

The Deficit Reduction Act was signed as Public Law 98-369 on 18 July 1984 [Ref. 4]. The Deficit Reduction Act was divided into Divisions A (Tax Reform Act of 1984 (Titles I-X) and Division B (Spending Reduction Act of 1984) [Ref. 6].

#### B. PROVISIONS OF PUBLIC LAW 98-369

Under legislation in effect before 1984, federal agencies were allowed to collect nontax debts in a variety of ways without any explicit guidance on cash management. In 1983, a total of \$55 billion in nontax receipts were collected by methods other than accelerated systems. This was one of many incentives for the Deficit Reduction Act. [Ref. 6]

The Deficit Reduction Act authorized the Secretary of the Treasury to prescribe the time-frame and the methods by which federal agencies will collect and deposit nontax debts to the Treasury. The Treasury has the power to impose charges for noncompliance in an amount determined to be the loss to the Treasury's general fund. The general fund will be available without any fiscal year

limitations for the payment of expenses incurred in developing and carrying out improved methods for collections deposits. [Ref. 25]

As the key agency, the Treasury now has the authority to perform and affect cash management throughout the Federal Government. Given its role and functions, the Treasury has the Congressional support which allows it to perform a better job of cash management, besides these other major functions:

- a. Acts as the government's treasurer and is responsible for the government's cash management policy and procedures.
- b. Provide services in support of the management of the public debt.
- c. Acts as the government's banker for the collection and disbursement of funds.
- d. Maintains a system of central accounting and reporting to provide a consolidated record of the government's financial transactions.
- e. Issues instructions on central accounting and reporting, payroll, disbursing, and deposit regulations. [Ref. 7]

#### 1. Collections and Deposits

Section 2652 of Subtitle C (Implementation of the Grace Commission Recommendations) states that:

... (a)(1) subchapter II of Chapter 37 of title 31, United States code.... (a) each head of an executive agency (other than an agency subject to section 9 of the Act of May 18, 1933 (48 stat. 63, chapter 32; 15 U. S. C. 831n) shall, under such regulations as the Secretary

of the Treasury shall prescribe, provide for the timely deposit of money by official and agents of such agency in accordance with section 3302, and for the collection and timely deposit of sums owed to such agency by the use of such procedures as withdrawals and deposits by electronic transfer of funds, automatic withdrawals from accounts at financial institutions, and a system under which financial institutions receive and deposit, on behalf of the executive agency, payments transmitted to post office lock boxes. . . [Ref. 6].

Congressional intention for this portion of the legislation is to reduce the national deficit through government-wide processing of collections and deposits. Failure to comply and make deposits in a timely manner would result in a cost to the agency. The Secretary of the Treasury is responsible for prescribing and assisting agencies in implementing the latest transfer methods available for the collection and the timely deposit of receipts. Each agency is responsible for reviewing its cash receipts processes and ensuring that formal procedures are documented which provide for the prompt and continuing action to collect nontax receivables. [Ref. 26]

DDO has not performed well in collecting debts. However, focusing attention on the value of those receivables collected (The Army and Air Force collected a combined total of \$736.3 million in FY 84 and \$912.9 million in FY 85) and deposited will result in less borrowing by the Treasury and allow for an accumulation of interest income through investment. The Treasury has various methods and

systems for collections and deposits, which will be discussed in the next section. [Ref. 27]

a. Collection Mechanisms

Any agency working with the Department of the Treasury will determine the most cost effective mechanism for collecting funds. The objective is to develop a system capable of expediting credit and enhancing the availability of funds to the Department of the Treasury. A thorough review and analysis will be accomplished to determine the extent of the current collection and deposit system. If improvements are required, a system is chosen which demonstrates the most efficiency and effectiveness at minimum costs. The simplest method of collection would be for the payee to deliver the funds to the agency or a representative. [Ref. 26]

The Treasury, through research and analysis, has developed alternative systems for collections. The systems involve electronic transfers which bypass the handling of monies. A system determined to be cost effective is normally implemented. But before any implementation, a thorough study is conducted which includes an examination of costs associated with personnel, system procurement, equipment, and system maintenance. If cost effective, the agency and the Treasury's financial management service (FMS) will require funding. The Financial Management

Service's input is essential to the decision process due to the service oversight and controls at the national level. The approval authority from the Financial Management Service is required when an agency plans to convert from one electronic system to another, establishes new contracts, and renews old contracts for collection systems. [Ref. 25]

Each agency is responsible for conducting cash management reviews, and their collection system and procedures must be documented. Periodic analysis should be an ongoing process for determining if areas for improvements exist. The Treasury's Financial Management Service will perform cash management reviews and identify those agencies which have inadequate collection systems. If an agency fails to comply or make improvements, the FMS has legislative authority under the Deficit Reduction Act of 1984 to mandate that an agency implement a specified collection system. The following sections will identify collection systems that are electronic transfer systems recommended by the Treasury. [Ref. 25]

(1) Lock box System. This is a system of depository accounts geographically located so that receipts mailed by payers will take no more than one day to reach that location. Components of the current lockbox network are as follows:

| <u>Banks</u>                       | <u>Location</u> |
|------------------------------------|-----------------|
| Citizen and Southern National Bank | Atlanta, GA     |
| First National Bank of Chicago     | Chicago, IL     |
| Republic Bank                      | Dallas, TX      |
| Bank of America                    | Los Angeles, CA |
| Meillon Bank                       | Pittsburgh, PA  |

The lockbox is a post office box designated as a remittance address for payments of an agency (Figure 4). The agency authorizes the bank access to the post office box. This allows the bank to collect mail from the post office several times a day, process the checks, and wire-transfer the amount into the agency's account. Receivable checks can be processed before the accounting function takes place rather than afterwards. Through this method, checks are available two to three days earlier than normal operations. [Ref. 28]

The armed services have established accounts with the following banks:

| <u>Bank</u>                        | <u>Service</u> |
|------------------------------------|----------------|
| Bank of America                    | Navy           |
| Citizen and Southern National bank | Army           |
| First National Bank of Chicago     | Air Force      |

Besides the Treasury's approval, agencies requesting a Treasury automated lockbox system must perform a mail

collection study and a review of administrative savings. The request must be formally submitted. The most important benefit of this type of system is that the system accelerates the collection of payments. [Ref. 29]

(2) Treasury General Account Cash Concentration System. The cash concentration system, which links a network of commercial depositories when an agency, makes deposits to a central concentrator bank through the automated clearinghouse system. This system services the Treasury's general account. As a result, the funds are transferred into the Department of the Treasury through a wire transfer. (Figure 5). Each day the Treasury general account depositories report all funds which have been deposited by agencies that day to a bank data service facility. The data service facility combines the information reported by all depositories and generates a transaction file. Transfers from the local depositories to the concentrator banks are made on the business day following deposit of the funds. Each concentrator bank wire-transfers the total Treasury general account deposits to the Treasury's main account at the Federal Reserve Bank in New York for immediate credit. In general, funds deposited in local depositories each day are credited to the Treasury's general account by 2:00 p.m. of the following business day. [Ref.29]

## LOCKBOX

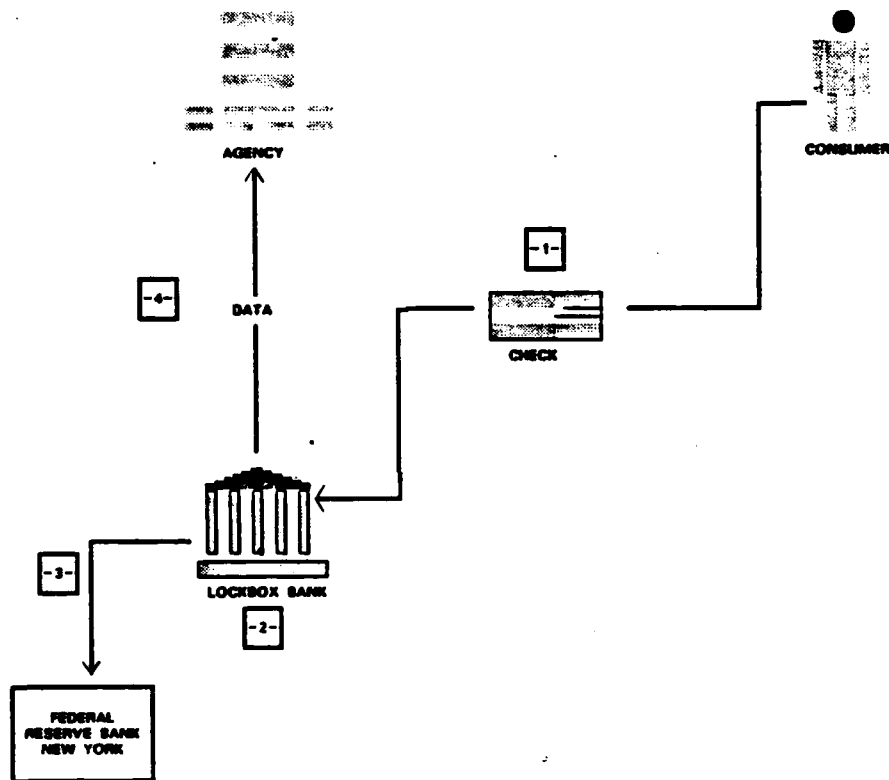


Figure 4

# TGA CASH CONCENTRATION SYSTEM

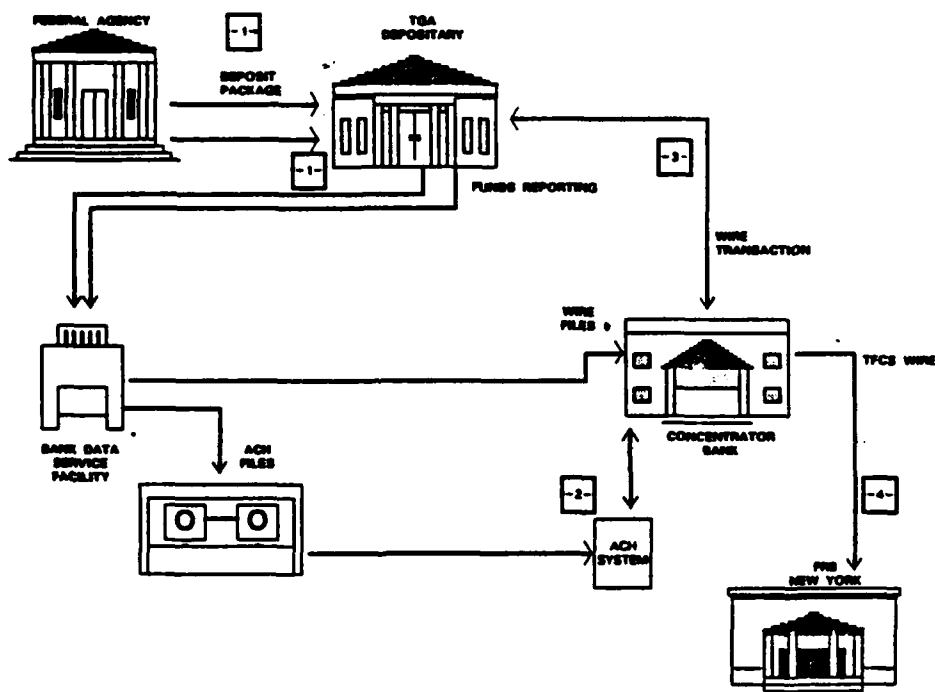


Figure 5

(3) Automated Clearing House System. Under this system, an individual or organization can authorize the government to automatically deposit or withdraw funds from a personal or corporate bank account. The funds are transferred by magnetic tape or other electronic media, through commercial depositories, Federal Reserve banks, and the Department of the Treasury.

This system provides for the clearing of debts and credits electronically rather than through a physical movement of checks. (Figure 6). Required invoice data can be directly channeled through the network by an originating bank. It is possible to edit and format this information to suit the needs of the agency. Subsequently, the transactions are relayed to the proper bank for funds collection. Once the funds have been pooled, the sum, along with its corresponding data is sent to the designated receiving bank. This bank wires the funds to the appropriate agency location code (ALC) at the New York Federal Reserve and transmits the deposit information to the agency. (Ref. 29).

(4) Treasury Financial Communication System.

This system provides for the transfer of funds through an electronic medium between the Department of the Treasury and the banking community. Since funds are wire-transferred, checks and the accompanying collection

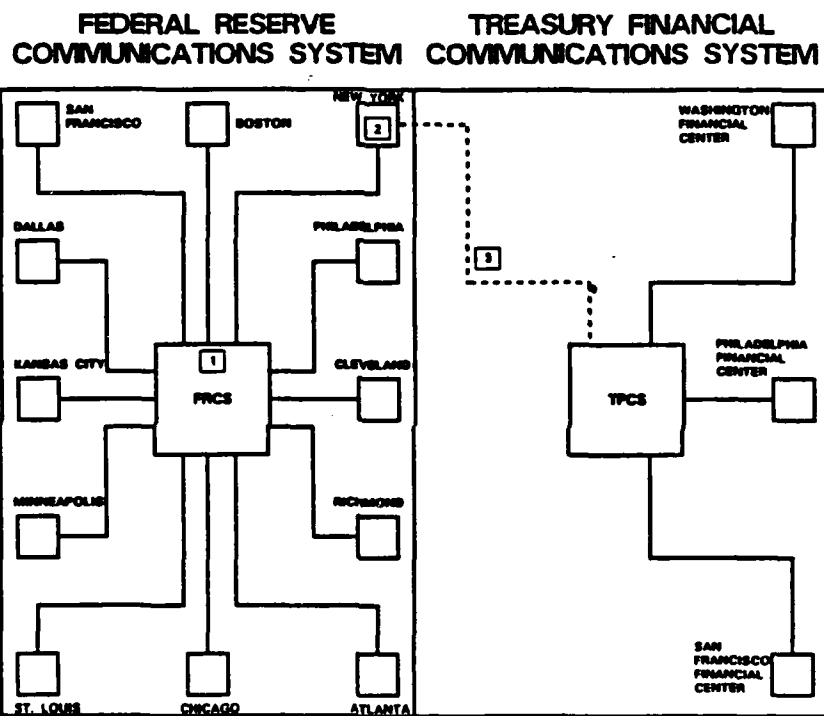


Figure 6

time are completely eliminated, and funds are available on the actual payment date. The system works in this format: (1) The Treasury Financial Communication System (TFCS) allows paying entities to direct their commercial banks to charge their bank accounts and to transfer payment through FRCS; (2) to the Treasury's main account at the Federal Reserve Bank of New York; (3) and the Treasury is immediately advised of the transfer through an electronic link provided by the TFCS (Figure 6).

[Ref. 29]

#### b. Deposits Procedures and Methods

The deposits of funds in an expedient and timely manner cannot be overemphasized. To allow for cost effectiveness, agencies are only required to deposit receipts of \$1,000 or more on the same day received before depositing cutoff time. When the accumulated amount is significantly less, next day deposit of funds is authorized. In addition, agencies will make multiple deposits if required, hand-carry vice mailing deposits to Federal Reserve or commercial banks, and maximize daily deposit amounts by depositing as late as possible to specified cutoff times. The mechanisms identified for collections are the same for deposits. The concept of depositing combined with collection comprise the processing phase of the Receipt Cash Flow pipeline:

Billing--->Payments terms--->Mailing --->Processing  
DOD and the Deficit Reduction Act focus on the processing  
phase of the Receipt Cash Flow Pipeline. [Ref. 26]

## 2. Cash Management Planning and Penalties

The agency is responsible for the planning, documentation, and implementation of a collection and deposit system. The collection process is a continuous requirement, and as new systems are developed the agency is required to review its system to identify areas for improvements. As an internal control procedure, each agency is encouraged to document all cash flows to maintain a perspective of the effectiveness of cash management within the agency. The cash flow documentation tremendously reduces the amount of time devoted to cash management reviews and the preparation of summary reports.

The Treasury's Financial Management Service (FMS) cash management review is an official report of an agency's cash management program. It will make recommendations and assist in the implementation if deficiencies exist. If an agency fails to respond to a series of notices, a financial charge will be assessed [Ref. 25]. Section 2652 (Collection and Deposits) states that:

. . . The Secretary is authorized to collect from an agency not complying with the requirements imposed pursuant to the preceding sentence a charge in an amount the Secretary determines to be the cost to the general fund caused by such non-compliance. . . [Ref. 6]

Agencies cited for noncompliance are required to pay penalties as determined by the Secretary of the Treasury. The penalties are deducted from appropriated funds, which are available to the agency to carry out programs to which the collections are related. An appeal process does exist and an agency which chooses to appeal a charge must submit the appeal to the Commission, Financial Management Service within 45 calendar days of the date assigned to the Notice of Deficiency. A penalty is not paid until final judgment is rendered concerning the deficiency. The appeal board is composed of the Commissioner (Financial Management Services), Assistant Commissioner (Federal Finance, Financial Management Service), and a temporary cash management official from an agency other than the agency appealing. A decision must be rendered within 30 days from receipt of the appeal. If the final rule favors an agency, no charge is assessed. If the charge stands, appropriate accounting data must be submitted to the Treasury within 30 days of the final decision. The Treasury, under the Deficit Reduction Act, is authorized to automatically debit the Treasury's account if an agency does not voluntarily pay the charge assessed.

[Ref. 25]

### 3. Cash Management Improvement Fund

Section 2652 (Collection and Deposits) states that:

. . . There is established in the Treasury of the United States a revolving fund to be known as the "Cash Management Improvement Fund" . . . [Ref. 6]

The fund will support initiatives and various improvements programs associated with the development of new methods designed to improve the mechanics of collecting and depositing of nontax funds to the Treasury. In accordance with the law, the fund will function as a revolving fund. The Treasury is assigned as the Financial Management Service as guardian of the fund. The disbursement of funds from the account will be expended for those projects specifically selected by a project selection and approval committee. The account balance will be published in a Treasury Financial Bulletin. A fiscal year limitation will not be established for expenses incurred as a result of developments in improved methods of collections and deposits. The expenses (incurred in developing new procedures and mechanics) and the costs (personal services, the leasing or purchase of equipment, and operating facilities) will be financed from the account. Comprehensive reports will be prepared and published by the Treasury relating to current financial position and past transactions affecting the account. [Ref. 25]

### C. SUMMARY

The Deficit Reduction Act of 1934 is perceived as a follow-on to the Debt Collection Act, which emphasized the collection of outstanding debts. The Deficit Reduction Act gives the Treasury authority to set policy. Historically, the Treasury has been an advocate of the cash management concept but unable to influence other agencies to participate. Only those agencies with similar enthusiasm and interest adopted and used the methodology and literature provided by the Treasury to advance their knowledge and expertise in the area of cash management. The Deficit Reduction Act requires that all federal agencies place increased emphasis and make improvements in the area of cash management. As a leader in the field, the Treasury is authorized to judge if an agency is in compliance and authorized to assess penalties if an agency fails to participate and initiate improvements. Funding is available for research, testing, and the implementation of new developments in the area of collection and deposits.

#### IV. Implementation of the Deficit Reduction Act of 1984

Congress gave the Department of the Treasury the responsibility for formulating and prescribing regulations and methods to implement the Deficit Reduction Act of 1984. The Department of the Treasury was provided one year to accomplish the task with a deadline date of 1 October 1985. The Treasury Department responded to the intent of Congressional directive and published the Federal guidance on 3 September 1985. The Deficit Reduction Act requires that all provisions relating to Section 2652, Collection and Deposits, be fully implemented prior to 1 October 1986. With the Treasury, DOD is formulating its policy to implement the Deficit Reduction Act. Once approved, OSD will stipulate to the services the requirements and procedures for processing the legislation.

In this chapter an analysis is performed on the implementation process of the Deficit Reduction Act. Although no formal policy has been promulgated, the analysis will indicate what procedures should be used and the problems that legislation faces in general. Along with the interpretation process, the implementation is a phase of the enactment process that is a factor in the success or failure of the Congressional legislation or

other administration regulations. The implementation process is a vital link to the intent of Congress or the originator of a regulation.

This chapter also includes a review of the steps and final rule resulting from the Treasury Department's compliance with the Deficit Reduction Act. The role of the Treasury during implementation and how it functions as the predominant administrator of the Deficit Reduction Act is discussed. The analysis will review the implementation process of similar legislation and observe their impact on the Prompt Payment Act and the Debt Collection Act of 1982. The issue of length of time it takes between the passage of law and the final implementation (or lack thereof) is addressed. Although full implementation will not be in process before the completion of this research, a look at the preparation, incentives, and problems that the armed services' accounting and finance centers foresee are of great concern and interest and are discussed.

The implementation process for the Deficit Reduction Act will not be easy. But if implemented with the intent of Congress and carried out within the spirit of the law, the results could be beneficial. As the chosen administrator, the Treasury Department will provide the impetus and enforcement for the success of the legislation.

A. IMPLEMENTATION OF THE PROMPT PAYMENT ACT AND DEBT COLLECTION ACT OF 1932

Before discussing the initial phases of promulgating the Deficit Reduction Act guidance within DOD, a review of similar legislation is presented to determine if similarities or differences exist. This review should benefit the implementation of the Deficit Reduction Act. The Deficit Reduction Act and previous legislations, as cash management initiatives, all focus on a common goal of reducing the amount of funds which the Federal Government has to borrow to pay its debt. Currently, the focus is on the deficit. It is also on each of the cash management initiatives which will fulfill a role in minimizing or reducing the debt. [Ref. 35]

1. Implementation of the Prompt Payment Act

The implementation of the Prompt Payment Act began with the publishing of OMB Circular No. A-125 (Prompt Payment). Circular A-125 provided the policies and procedures which were to be used in paying for the purchases of property and services acquired through government contracts. After interpreting Circular A-125 and the intent of the law, the Office of Assistant Secretary of Defense (Comptroller) further delineated through a memorandum format the purpose and requirements of Circular A-125, and added quarterly reporting requirements, computational rates, and reporting format. [Ref. 10]

Among the armed services, each branch took a slightly different approach. Besides the legislature and OSD requirements, the Navy required 30 of its largest commands (including major claimants) to assume responsibility for excessive interest payments paid by subordinate activities. NCF-21 (a branch of the comptroller) records interest data taken from the files of the Centralized Expenditure Reimbursement Processing System (CERPS). The data extracted is printed out in assorted formats. These documents form the Navy Interest Payment System (NIPS). The NIPS is reviewed by financial managers where those activities experiencing excessive interest payments are identified. The headquarters for activities receive monthly performance letters requesting prompt remedial action. Along with this report a "top 40" report is generated listing the worst Navy-wide activity performers in interest dollars paid. This reporting system in a competitive environment creates pressure on those commands experiencing problems with interest payments and forces them to take initiatives to improve their status. [Ref. 30]

In addition, separate reporting requirements were established for (1) disbursing activities which pay contractors with appropriated funds; (2) nonappropriated fund activities; and (3) the Defense Contract Administration Regions. The latter organization was required to implement

sixteen different reports to assist in controlling information regarding interest payments. [Ref. 30]

The Army and Air Force promulgated directives with similar reporting requirements but without the pressure initiative. The Air Force directives were more detailed and dictated an appropriate approach in relating changes to vendors. The Prompt Payment Act was not intended for the creation of adversarial relationships with vendors. Among the armed services, the Air Force directives and messages emphasized the seriousness of maintaining close relations with vendors during the initial phase of the implementation process. The Air Force actions, among the services, were the most appropriate in the spirit of the Prompt Payment Act. [Ref. 35]

OMB issued an amendment or attachment to Circular A-125 to better implement the requirements of the Act. The attachment was promulgated in response to concerns about progress payment and various types of contracts financed that normally is provided before the actual receipt of goods and services. Circular A-125 failed to address this issue. The A-125 amendment was issued to provide clarification of such questionable issues with additional guidance on the proper timing of payment to contractors and contract financing in general. [Ref. 11]

The implementation of the Prompt Payment Act was not a difficult task for DOD. The only difficulty rested with subordinate activities who suffered and still experience difficulties in paying bills. The Navy and the Air Force experienced few problems in implementing the Act and currently both organizations have been successful in achieving the goals. The Army still faces problems because of non-mechanized functions and the location of subordinate activities. [Ref. 36]

In summary, the implementation of the Prompt Payment Act and its intent have been successful from an overall standpoint. Goals of zero interest expense and zero early payments are feasible for DOD.

Factors characterizing the implementation of the Prompt Payment Act were:

- a. Timing was excellent. The Prompt Payment Act became law in January 1982 and was fully implemented by October 1982. The time spent interpreting the content of the law was minimized.
- b. The composite of reports from DOD and other federal agencies were presented to Congress by OMB.
- c. FY 83 was the first time that federal agencies were required by law to pay their bills on time. The federal agencies responded by paying 99% of their bills on time. Before the Act, 30% of Federal Government's bills were paid late. [Ref. 14]

2. Implementation of the Debt Collection Act

The Debt Collection Act was enacted to improve the Federal Government's efficiency in the collection of

debts owed to the United States. The improvements would result from new and revised procedures for the collection of debts owed the Federal Government by individuals and industry. The Act provided the impetus to structure a strong set of procedures that would effectively reduce the number and amount of outstanding debts that become uncollectible. Additionally, the Act eliminated the threat of liability against consumer reporting agencies and instituted a more appropriate system for the disclosure of information to those agencies. The system is effective if procedures are followed judiciously. In the past, the Federal Government could not collect general debts from an employee without their consent, but the Debt Collection Act changed this routine. [Ref. 17]

After the passage of the Debt Collection Act 25 October 1982, certain areas of the law required clarification. An amendment to the Debt Collection Act was passed 29 November 1983 which clarified the issue concerning contracting for collection services. The amendment provided for the contracting of collection services without designated funding for this services. [Ref. 17]

The four agencies directly involved in implementing the Debt Collection Act were OMB, GAO, Department of Justice (DOJ), and the Office of Personnel Management (OPM). These agencies were jointly responsible for

prescribing the guidance and regulations to implement the Debt Collection Act. GAO got involved by having the authority to permit write-offs over \$20,000. The DOJ was required to rule on cases involving litigation involving referred debts and their collection. OPM initiated salary deductions from pay checks. Finally, OMB has a historical interest based on its investment of time and manpower. [Ref. 31]

OMB was the first to publish guidance in a memorandum which highlighted the affects on the Privacy Act and disclosures. Through OMB Bulletin No. 83-21 procedures for referring information to consumer reporting agencies were promulgated. Next, OMB Circular A-129 of 9 May 1985 set the policies and procedures for the Federal Credit programs. The steps in a credit program are:

- a. Extending Credit: A determination is made based on the most current and accurate data concerning the financial status of an individual. Those individuals surpassing minimum requirements are extended credit.
- b. Establishing an account: Setting up an account to allow for scheduled repayments and a synopsis of procedures associated with failures to carry out obligations under the terms of the credit requirements.
- c. Collecting delinquent receivables: Collection performed following prescribed procedures and regulations that allows for and ensures due process.
- d. Write-offs: Expending from the records those accounts that are uncollectible and documenting the process followed to collect receivables. [Refs. 31, 33]

Circular A-129 provided the most critical information for processing delinquent accounts through collection agencies. Delinquent accounts (more than \$100 and to involving active duty members or federal employees) should be considered for referral when 61 days past due. It becomes mandatory when the payment is six months overdue. Active duty members and current federal employees' salaries are normally offset if accounts become delinquent. In pursuing delinquent accounts through collection agencies, the Federal Register highlight and document the class of records which would require annotation. This procedure is critical to ensure that each case is subjected to due process (39 day notification, opportunity to collect and copy debt related records, opportunity to set repayment schedules, opportunity to hearing an official decision). Circular A-129 and concurrent publications of regulations in the Federal Register were critical procedures in implementing the Debt Collection Act. [Refs. 31, 39]

Given the guidance from GAO, DOJ, and OPM, DOD initiated its phase of the implementation process through DOD Instruction 7045.18 of 13 March 1965 (Collection of Indebtedness Due the United States). The instruction was overdue, and when finally published it failed to address the critical issues concerning debt hearings and who would conduct such hearings. To add further confusion.

the subject of debt referrals between agencies remained unsettled. The guidance from the instruction addressed the issues of offsetting debts through accrued pay or retirement pay. [Ref. 34]

Currently, out-of-service debt is an issue and what is being done to reduce and collect them. The DOD instruction addressed offset procedures involving travel advances, damages to family housing or furnishing. The instruction also prescribed the measures of collections which were to offset accrued pay or retirement pay and monthly installment deductions from member's pay. The amount of disposable pay to be offset is limited to 15% for those cases where a member is actively employed. When a member resigns or retires the repayment can be set at any amount. For an out-of-service debt, the only difference is that there is no hearing. Opportunities to establish a repayment agreement, to inspect and copy debt related records, to review decision related to his claim and to be advised of intents to attempt administrative offset are the debtors' entitlements under the procedures of due process. [Ref. 32]

The DOD guidance provided the initiative and framework for the implementation of the Debt Collection Act. The rules, procedures, and methods were identified within the instructions. The responsibility was passed

to the services to implement the Debt Collection Act in accordance with DOD instruction, and make it work. In Chapter II, it was discussed that the services programs still lacked the concerted effort to effectively perform as the law prescribes. The Navy does not have a formal program established for collecting out-of-service debts. [Ref. 34]

### 3. Problems with Implementations

The Debt Collection Act and the Prompt Payment Act do provide insights into the implementation process:

- a. There is a time lag between the passage of a law and its implementation. The amount of time is determined by the complexity of the law and the intent of Congress. The legality of the law in designing a program for effective implementation must be approached with concern for due process.
- b. Within DOD, the service's implementation depends on the availability of compatible systems. Some form of automation is a critical factor.
- c. There was lack of initiative or incentive on the part of DOD. There must be an incentive to perform. The Debt Collection Act and the Prompt Payment Act did not offer the opportunity for active participation before inception.

There are many directives being passed down without any incentive to perform well from the manager's viewpoint. In essence the services have had cash management forced on them rather than voluntarily taking the initiative to construct programs on their own. But a deficit of \$2 trillion and public pressure have forced federal managers to react and congressional legislation has resulted.

External pressures have also originated from special interest groups and committees such as the Grace Commission and the Reform 33 work groups. [Ref. 6]

### 3. IMPLEMENTING THE DEFICIT REDUCTION ACT

The Deficit Reduction Act will be difficult to implement within DOD because (unlike the Prompt Payment and Debt Collection Acts) Congress wrote into the law definitive dates for the implementation of the legislation. In addition, Congress appointed a watch dog agency (Department of the Treasury) to ensure compliance. [Ref. 6]

#### 1. Treasury's Role

Because there had been no designated agency in the Federal Government, the Department of the Treasury historically has had absolute expertise in the area of cash management. The Treasury maintained a division (Banking and Cash Management) in the early 1970's that was assigned the task of assisting and coordinating money management policies in the Federal Government. With the Deficit Reduction Act, the Treasury gained the authority needed to carry out its programs and implement those concepts it has fostered over the years. It also gave the Treasury the opportunity to institutionalize cash management. [Ref. 6]

The Deficit Reduction Act gave the Treasury the authority to prescribe the timing and the methods by

which agencies will collect and deposit money to the Treasury, and to impose charges for noncompliance in the amount determined to be the loss to the general fund. Monies in the fund will be available without fiscal year limitation for the payment of expenses incurred in developing and carrying out improved methods for collections and deposits. [Ref. 6]

The Treasury's objectives for a cash management program are (1) to improve liquidity by encouraging the use of funds instead of investing in idle resources; (2) to improve cash velocity (increasing the flow at which collections are made); (3) to increase returns on funds through investments; and (4) to improve safety of funds by improving internal controls and preventing unauthorized access. These objectives will be the basis for an approach to reducing the deficit. [Ref. 29]

The Department of the Treasury had a mandate of 1 October 1985 to analyze and interpret the Deficit Reduction Act, and to prescribe and formulate regulations and procedures to achieve the implementation of the Act within the Federal Government by 1 October 1986. The Treasury viewed this as an opportunity to institutionalize cash management and give it substance, which was long overdue. [Ref. 6]

The Treasury's initial step was the convening of a government-wide task force. A total of twenty Reform 88 agencies were invited to participate. From this organization, four Task Groups were set up and met for two-three weeks each (December 1984-February 1985).

The following actions were taken:

- a. The first task group developed a notice which provided the proposed rules for implementing the Deficit Reduction Act.
- b. The second task group produced procedures for monitoring cash management performance
- c. The third task group focused on developing procedures for using the Cash Management Improvement Fund (CMIF).
- d. The fourth task group revised Chapter 6-8000 (cash management) of the Treasury's Financial Manual. This task force's overall objective was to develop the regulations for implementing the Deficit Reduction Act.

The results of the task groups interactions was the Fiscal Service 31 CFR Part 206 which was published in the Federal Register 3 September 1985. This date was in advance of the October 1985 deadline. The highlights of the Final Rule are as follows:

- a. Billing is required within five days of services rendered, goods delivered, or payment otherwise due.
- b. Financial management service may prescribe use of specific collection mechanisms.
- c. Agencies will achieve same day deposit of monies with only certain exceptions.

- d. Using the methodology outlined in the Cash Management Review Guide, periodic cash management reviews will be conducted by agencies to identify opportunities for improvements.
- e. As a last resort and in cases of noncompliance, the Treasury has the authority to levy charges against an agency's account in the amount determined to be the interest saving lost due to noncompliance. [Ref. 29]

The Second phase of the Treasury's implementation of the Deficit Reduction Act involved the development of internal procedures for the Treasury. The internal procedures would establish mechanisms, programs, and systems for monitoring the performance of agencies. The procedures would require that:

- a. Agencies perform cash management reviews and submit cash flow reports.
- b. The Treasury will use its cash management tracking system to identify from the cash management reviews initiatives that agency's are using to comply, and where necessary improve their cash management programs.
- c. Procedures be identified for assessing charges where necessary, and formalize an appeal process for those agencies questioning a levied charge. [Ref. 29]

The Treasury's third phase in implementing the Deficit Reduction Act was the development of procedures for the operation and funding of the Cash Management Improvement Fund. The Fund (as discussed in Chapter III, page 2) was established to promote new initiatives and innovations in the development of new or improved cash management collection mechanisms having a potential for government-wide applicability. The procedures also would

(1) contain agency application guideline; (2) make absolutely clear that the fund would be available according to cost/return analysis with applicability on a government-wide basis, and (3) identify reporting requirements for those agencies who successfully qualify and are awarded funds.  
[Ref. 29]

The fourth phase of the Treasury's implementation of the Deficit Reduction Act was the rewriting of the Cash Management Chapter of I-TFM 6-8000. The revision was made necessary by the Deficit Reduction Act. The revision would contain (1) changes resulting from the new legislation on the subject of collection and deposits, (2) all updates from last revision, and (3) a supplement to the chapter (Cash Management Review Guide).  
[Ref. 29]

## 2. The Cash Management Review Guide

This document would be used by agencies and the Treasury during cash management review visits. Prior to this document, no instruction had been set forth on how to review cash management. In the past, a system of trial and error and each agency's own interpretation and individual efforts were the measures of the day. The Cash Management Review Guide provides a step by step procedure for conducting a cash management review. The purpose of the cash management review is to reduce float

(mailing, processing, billing) by analyzing transactions, documenting the cash flow, and establishing initiatives for compliance using the standards contained in the review guide. Analyzing all flows one at a time in accordance with the standards leads to compliance with the regulations. [Ref. 37]

### 3. Benefits for the Treasury

The Treasury's benefits from the review process by using the data to:

- a. Initially update its cash flow data and the establishment of a data base using the new data.
- b. Improve forecasting thereby reducing its borrowing needs.
- c. Track interest savings.
- d. Assist agencies in complying with the legislation.
- e. Share information with agencies experiencing similar cash flow problems.

### 4. Benefits to the Agencies

The cash management review process benefits the agencies by:

- a. Allows them to institutionalize cash management and get the maximum for each budget dollar.
- b. Allows each agency to completely review and analyze their cash flows in a systematic fashion to identify improvements and possible interest savings.
- c. Provides opportunity to upgrade systems with state-of-the-art technology. [Ref. 29]

## 5. Treasury's Implementation Regulation

On 28 March 1985 the Treasury's management service published a notice of proposed rules as a preliminary requirement to the publication of the final rule in the Federal Register. The general public was given 60 days to discuss and comment on the proposed Rule. Twelve written comments were received which prompted a ruling concerning their value and appropriateness as changes to the rule. The Financial Management Service evaluated all comments based on three criterion: (1) the comments had to be consistent with congressional intent; (2) the changes must provide equality for all agencies; and (3) the changes must amplify and clarify the Treasury's requirement and the responsibility of the agencies.

These discussions contributed immeasurably to the structure of the Final Rule, and provided an avenue for clarification and a better understanding of the requirements and other questionable areas. The areas requiring clarification were:

- a. Scope and application.
- b. Definition of terminology.
- c. Billing policy and procedures.
- d. Collection mechanisms.
- e. Collection and deposit procedures.
- f. Cash management planning and review.

g. Assessment of Charges.

- a. Operations and payments from the Cash Management Improvement Fund. [Ref. 25]

In a majority of the situations, the Treasury stood by their proposed regulation. Some of the highlights and established principles of the discussion were:

- a. Voluntary donations were not exempted.
- b. A cutoff time of 2:00 p.m. was accepted as the financial institution cutoff time for depositing funds.
- c. The Billing process (which was not written into the language of the Law, but the Treasury included it because billing is an integral part of the collection process as perceived by the Treasury). A five day billing cycle was established.
- d. The Treasury adopted a policy that it would without failure institutionalize cash management within each agency.
- e. The agency is responsible for evaluating its system for cost effectiveness, and if not satisfactory identify areas for improvement and take appropriate action. [Ref. 25]

The Deficit Reduction Act was an important initiative that was welcome and overdue. The Treasury was receptive to their role as an administrator for the Act, and went about their business enhancing their position as a leading organization in the area of cash management. The highlight of the Treasury's function was the creation of a forum where representatives from all federal agencies were

invited to participate in discussing the final regulation and become acquainted with the concept of cash management. [Ref. 39]

Subsequent meetings were held with OSD and representatives from the armed services financial community. The consensus among the armed services was that the Federal Register did not direct that action be taken, and that OSD should provide the initial guidance or directive. Initially, OSD assumed the position that its role was one of coordination of responses from the services; the armed services were to respond directly to the Treasury. This position changed as the difficulty of implementing the Deficit Reduction Act became a reality. [Ref. 39]

#### C. DOD's Role in the Implementation of the Deficit Reduction Act

DOD began acting on the legislation based on the requirements listed in the Final Rule of the Federal Register publication. A memorandum was issued from the Office of the Deputy Assistant Secretary of the Defense (Comptroller) on 24 October 1985. The memorandum announced the requirements and initiated the start of the cash management review program. All DOD components would establish such programs in accordance with guidelines published by the Department of the Treasury. The most critical and controversial requirement resulting from all

previous discussions centered on the task that all DOD components would prepare cash flow data within each organization. Interpreted, this meant reviewing each receipt and disbursement cash flow, an infeasible task considering the availability of time before the 30 September 1986 deadline. [Ref. 40]

Within the armed services, the accounting and finance centers set up appropriated offices for assessing their capability for responding to the Assistant Secretary's memorandum and the Treasury's requirements.

- (1) The Navy's response questioned the broad scope of the requirements because of the short time for compliance. This question was prompted at one Treasury seminar, but no response was provided. The Navy's concern presented a consensus view that the accounting activity and the subordinate command would be overwhelmed in trying to perform the required task. The Navy recommended that receipts cash flow be documented this fiscal year and disbursements during the next year. The Navy choice of receipts over disbursements was attributed to ongoing initiatives in the area of disbursements. In addition, receipts should be further divided to meet the October 1986 deadline for implementation.

The bottom line from the Navy's perspective is that their cash flows are too numerous and complex to put together a report of any significant value within the allotted timeframe. The need for additional time was the essence of their response to perform an adequate job with meaningful results. [Ref. 42]

(2) The Air Force's response requested a unified approach for DOD. It expressed concern over their capability to comply within the provided timeframe and requested the OASD take a more active role in correlating the actions of the military services. The Air Force requested that the OASD provide implementing guidance, appropriate format for reporting, and the content and timing of reports. It requested that consideration be given to the duplication of efforts under Reform 88 where an inventory of cash receipts, disbursements and holdings by activity were reported. Finally, the Air Force requested the identification of improvement initiatives resulting from this activity, and considered the management value of cash flow reports compared to the cost of producing them. [Refs. 21, 35]

(3) The Army's response echoed the sentiments of the Air Force and the Navy, that there was no way the armed services could carry out the implementation in the time frame provided. [Refs. 35, 36]

OASD chaired another meeting on 12 March 1986 with the DOD components and the Treasury staff personnel participating. This particular meeting centered on a coordinated recommendation from the armed services that the Treasury extend the due dates for completing the cash flow reviews. This would be difficult because the implementation date was mandated by the law. Discussions were also held to develop a coordinated DOD position on how to meet the Treasury's requirement. [Ref. 42] The meeting eventually resulted in a proposal to review in FY 86 four major receipt cash flows which are centrally managed and administered by the finance centers. The proposed cash flows would be addressed in the following areas:

- a. Out-of-Service debts for Military personnel.
- b. Out-of-service debts for civilian personnel.
- c. Military retired pay debts.
- d. Contractor debts.

The Treasury's representatives were receptive to the proposal and indicated that the reviews should focus on large dollar receipt flows and large receivables. Each service is required to submit to OASD(C) a complete list of receipt cash flows and estimated dollar value. OASD(C) opted to draft a memorandum to the Treasury requesting a waiver to the Cash Management Review Guide requirements. The FY 86 review would be limited to the four cash flows discussed above. [Ref. 21]

Apart from their original intention, OASD has been an interactive force in implementing the Deficit Reduction Act within DOD. The implementation has a few months remaining before its enactment. Even with a proposed plan of action, the question still remains as to whether the armed services possess the incentive to implement the legislation.

#### D. TREASURY COMMENT ON DOD'S PROPOSAL

The Treasury has indicated that the proposal from DOD of using the four basic categories as the initial steps of implementing the Deficit Reduction Act may be

acceptable. But there will be no waiver for the submission date nor the fulfillment of the cash management review process. The Cash Management Review Guide will be used to document the cash receipt flows. Through their acceptance, the Treasury waives the requirements of reviewing all cash flows until the following fiscal year. There is a great deal of concern and speculation within DOD that next year will not see the full implementation according to the Treasury's guidelines [Ref. 43]. With only four months remaining, how could the Treasury refuse the DOD request? Even if they did, the proposed input would still be DOD's only response due to the short time remaining. The lack of coordination, confusion, lack of incentives, and the scope of the Treasury's guidance have contributed immeasurably to DOD's failure to fully implement the Deficit Reduction Act according to the Treasury's requirements.

The four cash flows are all related to debt collection. These cash flows are high dollar value categories and are major receipts of a recurring and nonrecurring nature. During initial contacts with the Navy, Army, and Air Force, the consensus was that the scope of the Treasury's regulation for implementing the Deficit Reduction Act was too broad. Because of this fact, the services did not

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COMPARATIVE EVALUATION OF THE IMPLEMENTATION OF THE  
DEFICIT REDUCTION ACT WITHIN THE DEPARTMENT OF DEFENSE  
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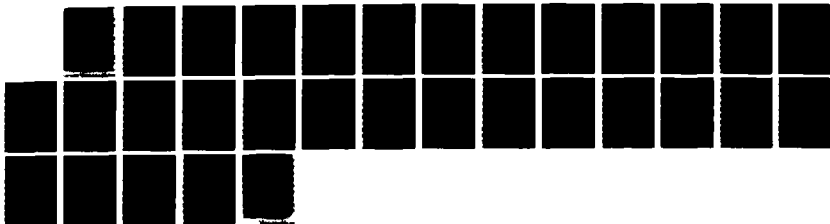
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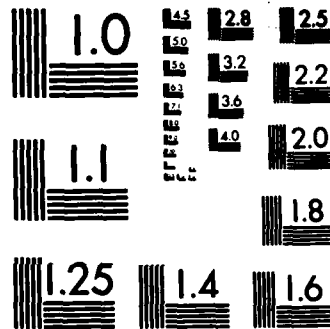
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request nor contemplate that in their best interest it would have been wise to initiate a receipt cash flow review immediately after the release of the Treasury's rule. It was anticipated that a waiver would be allowed for the FY 86 deadline. But the Treasury does not have the authority to change an implementation date which is part of the law. Only an amendment or Act of Congress could allow this.

#### E. IMPLEMENTATION

The following data summarizes the current action being taken to implement the Deficit Reduction Act.

##### 1. The Army

The Army will experience the least difficulty in setting up and analyzing the receipt cash flows. The process is scheduled to be completed by June 1986. The Army plans to analyze receipt cash flows in its (1) Transportation Operations, (2) Retired Pay, Military, (3) Out-of-Service debt, Military, and (4) Out-of-Service debt, Civilian.

##### a. Transportation Operations

The Army has a automated system (USAFAC) that is used for documenting payments to contractors. The debts resulting are related to services contracted out on Government Bill of Lading (GBL). For FY 85 transportation operations had a public receivable debt of

\$2 million. G&Ls are issued to contract services for household goods packing and shipping, moving equipment, and other related services. The cost for these services are normally weight related. Often there are differences between the estimated contracted weight and the actual weight and these differences are considered Army public receivables. The contractor is notified of the overpayment.

The receipt cash flow analysis begins with the billing process. The Treasury's standard is five days. The payment terms, mail float, and processing float are analyzed in sequence. The objective is to evaluate the amount of time expended for collections and deposits. The Army plans to compare its operations to the Treasury's standards, to determine if improvements are feasible and cost effective.

b. Retired Pay, Military; Out-of-Service, Military;  
Out-of-Service, Civilian

A review of the receipt cash flow procedure involving these categories is initiated with the critical step of documenting the debt. A centralized accounting system allows the Army to perform a complete record review of personnel leaving the Army (civilian and military). Debts discovered before detachment are settled with an offset from the individual's final pay. Debts accumulated during the last 30 days before detachment are listed as OSAN debt. Once identified, the debt collection procedure is

implemented with due process. The receipt cash flow review begins after settlement has been reached concerning the method of payment. The Army plans to review the receipt cash flow from the point of collecting the payment through administrative processing, and finally its deposit in the Treasury's general account. Any improvements resulting from the review will begin at this point of collections.

c. Objective

The Army's objective is to evaluate the cash flow at the Army Accounting and Finance Center. Inclusive in this approach is an evaluation of each activity involved in the collection of data on out-of-service debts.

2. The Air Force

The Air Force's plan for implementation parallels that of the Army with certain exceptions. The four chosen receipt cash flows are (1) Out-of-service, military. (2) Out-of-service, civilians, (3) Military, Retired pay. and (4) contract debts. The documentation of debts is performed by the respective activities at the AFAFC. The receipt of a check or cash is directed to a cashier who deposits the funds in the Treasury's general account. The focus will be directed to improving in-house processing functions.

a. Out-of-Service, Military

The Air Force plan to use the Joint Uniform Military Pay System (JUMPS) for the identification of military related debts.

(1) The JUMPS Process. The JUMPS system is highly centralized. It is a computer system with a data base that is updated nightly with batch processing updates from Accounting and Finance offices (AFO) at the local Commands. Each service member's account is centrally located at the Air Force Accounting and Finance Center (AFAFC). Feedback from the AFAFC is received each morning by the AFOs in the field. The AFOs can make inquiries twelve months back and process changes for the last six months.

(2) Member's Separation. Prior to separation, the local AFO must get authorization from AFAFC for the member's final pay. The system queries the member's account for outstanding debts. Bad checks written in the last 30 days are not accounted for by the system. As a result, this debt becomes an OSAR. The final figures provided by JUMPS is sufficient to start the OSAR collection process. The account is referred to AFAFC for collection.

(3) Collection and Deposits. The receipt cash flow review begins with the offset process. Once cash or a check is received, an analysis will be performed

to determine if improvements can be made to the process. Concentrated efforts will focus on reducing the float from the collections and deposits.

b. Military, Retired Pay

The Air Force plans to use its Retiree Annuity Pay System (RAPS) for identifying debts and scheduling repayments.

c. Out-of-Service, Civilian

The Air Force has a centralized system that documents civilian pay. The civilian payroll office identifies the debt and forwards appropriate documentation to OPM. OPM can release funds from the member's civil service retirement contribution account to pay the debt. If the member does not have funds in the account the debt is returned to the AFAFC. Debt collection procedures are implemented to collect the debt.

d. Contractor Debt

The Debt Collection Status Report is used to manually assess the debts owed by contractors. Once identified, the contractor is notified of the debt (billing). The cash or check is forwarded to a cashier at AFAFC who deposits the funds in the Treasury's general account.

### 3. The Navy

As of this writing, the Navy has not taken action to identify a system or program for implementing the four proposed categories of debt.

## F. THE PROBLEM OF IMPLEMENTING THE DEFICIT REDUCTION ACT

### 1. Accounting and Finance Centers

The problem of implementing legislation data collection and putting it in a reportable format. The problem may be traced to several factors: (1) an absence of a computer system or appropriate software package, (2) a lack of interpretation, (3) a lack of funding or manpower, or (4) a lack of incentives. The problem has centered on the accounting and finance centers, and their concern and efforts in pursuing the implementation process. The accounting and finance centers mainly review legislation and prescribe rules and regulations. The support of the accounting and finance centers or lack thereof amplifies the success or failure of the legislation concerned. In many instances, they are the cornerstones of the implementation process.

### 2. Congressional Assistance

Congressional legislation reflects the good intentions of Congress to do well in the eyes of the public. Their concern for the implementation process seems limited to identifying an administering agency.

OMB was tasked with responsibility for the Prompt Payment Act. GAO, Department of the Justice, OPM, and OMB were assigned the responsibility for the Debt Collection Act. The Treasury is responsible for the Deficit Reduction Act. Except for the Prompt Payment Act, which was done on short notice, the Debt Collection Act and the Deficit Reduction Act have caused problems for the armed services. The services agree that the Deficit Reduction Act will contribute to improvements in cash management. But the full impact will not be realized until complete implementation has taken place (when DOD and the armed service have had the opportunity to review all cash flows). It is possible that the full implementation may result in savings. The Navy anticipates that the amount of cash that disbursing officers carry aboard ships and the cash in safes overseas may be reduced (the funds held by disbursing officers on ships make up the largest share of cash held outside of the Treasury).

### 3. Treasury's Analysis

The problem identified by the Navy, and one that is a concern to all the other services, is the procedure the Treasury will use in compiling, evaluating, and analyzing the data collected [Ref. 15]. The Treasury has solved this problem by basing the reporting throughout the Federal Government on the number of cash flows.

Federal agencies are divided into groups, and those with fewer cash flows have earlier reporting dates. Some of the federal agencies have completed their cash flow reports. The Treasury has established an automated system for analyzing the data. DOD is in the last group of reporting agencies. DOD has the largest number of cash flows and the Treasury accepts the fact that their cash flow reviews may not be complete prior to September 1966. But the entire implementation process will be completed as required because the Treasury does not have the authority to waive the reporting date. However, in DOD's case, they will allow partial reporting due to the large number of cash flows. [Ref. 39]

#### 4. Should Legislation Provide Funding and Manpower?

The implementation of the Deficit Reduction Act, like the Debt Collection Act, has the potential of becoming stagnated and failing to fulfill the intent of Congress. The absence of funding and manpower support are critical requirements in view of past legislation and the current efforts to implement them. As mentioned above the services once again, have had cash management forced upon them rather than voluntarily taking the initiative to construct programs or Internal Control procedures. The armed services are putting forth an enormous amount of effort and time to comply with legislation as enacted. The

insecurity of the services seems to be linked to their data base. The mechanism for compiling requested data to implement legislative requirements is not available in all cases. Each requirement is causing a backlog because the funding and manpower for gathering data is a function of the current manpower structure. If an automated system is not available, then gathering data becomes time consuming. For the Deficit Reduction Act, resources for complying with the legislation were not provided. Even the Treasury's Cash Management Improvement Fund was established without a financial base. If Gramm-Rudman is an indication, the Deficit Reduction Act will proceed without additional manpower. What will occur is that priority programs will prevail. Funding and manpower should be incorporated in the legislation to ensure implementation.

### 3. AN OBJECTIVE VIEW

The four categories chosen for cash management review are debt related. Realizing the problem encountered with debt collections, it appears that the Air Force and the Army will experience minor difficulty in documenting the cash receipt flow. But the Navy will encounter difficulty due to lack of automation. Further research in this area is encouraged. The final implementation of the Deficit Reduction Act within DOD and the results from that process

will be a determining factor as to whether the Act contributes to improvements in cash management. Most importantly, will DOD fully implement the legislation? The Deficit Reduction Act could be another step or the end to cash management legislation. The basic feature of the Act has been incorporated in the Gramm-Rudman-Hollings amendment which requires Congress to reduce the budget deficit by \$36 billion a year starting with FY 86. If Congress fails to achieve the required deficit reductions, the process will be backstopped by a procedure under which the President could make the needed reduction across-the-board, except for Social Security. Something like the Gramm-Rudman-Hollings is needed to not only restore budget control as an end in itself, but also to establish a fiscal position under which a constitutional amendment could be adopted without disruption. The constitutionality of Gramm-Rudman-Hollings is being challenged in court. The argument is that the involvement of the Congressional Budget Office in an action of the Executive Branch was an unconstitutional violation of the separation of powers. (Ser. 43). The action is still pending.

## V. SUMMARY, CONCLUSIONS, RECOMMENDATIONS

### A. SUMMARY

The Deficit Reduction Act was Congress's response to public concern, rising deficits, and uncontrollable spending within the federal government. The Deficit Reduction Act is another step in a series of legislative acts and administrative regulations designed to implement control over spending and provide for improvements in cash management procedures. The portion of the Deficit Reduction Act dealing with collections and deposits resulted from a Grace commission recommendation for improving the efficiency and effectiveness of federal managers. Public interest and concern has forced congressional leaders to take the initiative to reduce the deficit.

The Deficit Reduction Act is one such initiative aimed at improving cash management by advocating quick response in collecting and depositing receipts with the Treasury. The Treasury has been designated as the administering agency by the legislation. Their goal, advocated in the past, is to institutionalize cash management in the Federal Government. The Deficit Reduction Act give the Treasury this authority.

The Treasury seized the opportunity to make cash management as a functional and an alternative measure of

management's performance. The Treasury designed a cash flow review process as the initial step for implementing the Deficit Reduction Act. It requires all federal agencies to document receipts and disbursement cash flows and analyze them for improvement and cash savings.

September 1986 is the deadline for implementation of the Deficit Reduction Act. The Prompt Payment and Debt Collection Acts were cited as references to determine the precarious problems confronting DOD while implementing congressional legislation. The implementation process is difficult and perceived as a forced Act rather than a program derived within the defense community.

The armed services are experiencing similar problems with the Deficit Reduction Act that were encountered during the implementation of the Debt Collection Act. The main problem was the absence of an automated system for compiling and formatting the required data.

Seven months were required to determine that full implementation could not be achieved before September 1986. The incentives the armed services have for improving cash management do not exist. The perception of having cash management forced on an agency is counter productive to an agency designing a similar program internally.

Consequently, the armed services spend time discussing ways to minimize the effect of the Treasury's reporting requirements vice addressing the issues.

Congressional legislation creates uncertainty among the armed services. Most often in DOD, the shortfall in implementation is attributed to insufficient funds, lack of automation, or misinterpretation of the legislation. Programs to implement legislation become a reality or linger on from year to year. The Debt Collection Act is experiencing the latter.

Depending on the service's accounting and finance systems, the current cash management regulatory framework is well received or problematic. The Navy is experiencing considerable difficulties with the Prompt Payment and Debt Collection Acts. A parallel conclusion is stated for the Army with the Air Force performing more effectively.

The Deficit Reduction Act began as a problematic issue without leadership from DOD. With a change in perspective, OSD has intervened and sponsored a program that proves acceptable for the interim. Due to the substantial number of cash flows within DOD, only time will determine whether improvements will be made in the armed services' collection, deposits, and disbursements of cash. The law initially focused on collection and deposits. The Treasury

added, through regulations, billings and disbursements to its review process. The Deficit Reduction Act will improve cash management and perform as Congress intended. The problem is ascertaining a position where analysis can be accomplished.

The implementation of the Deficit Reduction Act began with the publication of the Treasury's regulation. Following a series of discussions and meetings, DOD has proposed an interim program vice full implementation before September 1986. The interim program is an analysis of four cash receipt flows. The proposed cash flows are: (1) Out-of-Service debts, civilian personnel, (2) Out-of-service debts, military, (3) Contractor debts and (4) Military retired debts. The cash flows are all debt related. The armed service with an effective debt collection program will experience the least difficulty.

The Deficit Reduction Act will be delayed indefinitely after the initial implementation phase due to the scope of the review process. The Debt Collection Act was enacted in 1982, and the implementation phase is still in process in 1986. The Deficit Reduction Act will follow a similar path of stagnation unless the Treasury intervenes.

From an overall perspective, the armed services need to become more efficient in cash management. The point is reflected in part by poor implementation programs and

the substance of the individual accounting systems. Individually, the Air Force is performing most effectively in the area of cash management.

## B. CONCLUSIONS

To establish a research file, contact was made with the Navy, Army, and Air Force Accounting and Finance Centers. The conversations that ensued revealed that the subject of cash management was actively discussed at that level. The Prompt Payment and Debt Collection Acts remain the focus of cash management discussions. This particular point of view contributed to the deficiency in work performed on the Deficit Reduction Act.

1. The Prompt Payment and Debt Collection Acts, as Prior Cash Management Initiatives Do Provide a Medium for Evaluating the Implementation Process and Related Problems confronting the Deficit Reduction Act.

DOD is performing well under Prompt Payment Act but no assessment of performance under debt collection can be made due to incompleteness. Three factors affected the legislative implementation process: (1) timing, (2) automation and (3) incentives or lack thereof.

The Prompt Payment and Debt Collection Acts surfaced the issue of timing. The timing for the Prompt Payment Act was excellent. The Act became law in January 1962 and was fully implemented in October 1962. A considerable time lag existed between passage of the Debt Collection

Act and its implementation which is in process. Timing is affected by the complexity and legality of the legislation. Limiting the time lag is crucial to maintaining the spirit of the law during the implementation phase.

Within DOD the implementation process is dependent on the availability of an automated system for data collection and reporting. The service possessing automated capability to respond to requirements will experience less difficulty during the implementation process.

The lack of incentives affect the implementation process. Programs without incentives have caused a lack of concern for improving cash management. Legislation has been directive in nature vice motivational. There is a rush for results to satisfy seniors and respond to public concern. The attitude at the finance centers fluctuates (e.g., the Navy's concern is for ships and disbursing officers performance only).

a. The Results

(1) The timing for the Deficit Reduction Act is effective. The legislation was enacted to reduce the deficit. Presently, the federal debt is a top priority issue. The law provided that implementation would be in effect by September 1986. The armed services are working toward that date.

(2) The Deficit Reduction Act will require an automated system for data collection and reporting.

(3) There are no incentives for instituting the Deficit Reduction Act. It is perceived as a directive by the armed services. This will affect the implementation process and the number of personnel allocated to perform cash flow reviews. The armed services are not performing well under the Prompt Payment or Debt Collection Acts collectively. With the Deficit Reduction Act pending, the armed services have demonstrated a lack of incentive and concern to aggressively comply with the Treasury requirements.

2. The Deficit Reduction Act Will Improve Cash Management

A consensus opinion among the services cite the Deficit Reduction Act as effective legislation. Although it is difficult to quantify the savings presently, the concept of the legislation indicates a potential for savings. The support for the legislation is based on past experiences where excessive amounts of cash receipts were frequently delayed prior to depositing with the Treasury.

3. The Scope of the Treasury's Cash Review Process Too Broad for DOD

The excessive number of cash flows within DOD cannot be documented prior to September 1986. The Treasury

waived the requirement for full implementation by allowing a limited review. The armed services will document only four receipt cash flows during the initial phase to meet the deadline.

4. The Proposed Cash Flows are not Sufficient to Arrive at a conclusion that improvements are warranted

Until all cash flows are completed, the final results will remain incomplete. The problem the Treasury must resolve is motivating DOD to complete the review process as designed. The cash flow documentation will require an enormous amount of time to complete. The Treasury's directive, without funding or additional personnel, will cause an adverse effect on the armed services. On a micro-level, the Treasury will benefit. But to save one dollar, the armed services must invest five or six dollars in labor and time. The armed services are concerned about the cost/benefit reasoning associated with the legislation.

5. The Treasury can institutionalize cash management.

The Treasury has this authority through the Deficit Reduction Act. The potential for success is fair. The Treasury can assess charges against agencies for failure to comply with cash management legislation. The amount charged is determined by the Treasury's assessment of the Cash Management Program. The effectiveness of

the legislation depends on how the Treasury exercises its authority. The Treasury will determine whether cash management becomes institutionalized or not.

6. Improving cash management in DOD will be difficult.

The influx of legislation identifies the need for improved cash management within DOD. The amount of legislation is excessive. The Deficit Reduction Act augments the problems the armed services presently encounter in performing under the Prompt Payment and Debt Collection Acts. The proposed cash reviews are debt management initiatives but Debt Collection implementation has not been completed. Therefore the problem is compounded. The armed services are attempting to improve cash management and have experienced moderate success in Prompt Payments.

Incentives are essential in ensuring the success of the legislation. The lack of an incentive system has been cited as a problem which hinders effective cash management within DOD. Cash managers below the headquarters level (Accounting and Finance Centers) lack the goals and incentives, resulting in less than optimal cash management.

7. Intent not achieved

The Treasury's authorization to waive the requirement for the completion of all cash flows within DOD, did not comply with the intent of Congress. The intent of Congress was to have programs implemented (by September 1985)

which would show improvements in collection and deposits and their effect on the deficit.

8. Monitoring subordinated performance in cash management is ineffective.

Collectively, the armed services lack a regular system for monitoring the cash management performance of subordinate activities. Presently, the armed services depend on their respective auditing agencies for assessing the cash management performance. The auditing function is not performed on an annual basis which restricts regular monitoring of performance.

The final implementation of the Deficit Reduction Act is two or three years away. The full impact cannot be measured or assessed until all cash flows (receipts and disbursements) have been analyzed and documented. The implementation of the Deficit Reduction Act within DOD will become stagnated unless progressive action is taken by the Treasury. The lack of incentives and excessive legislative requirements are affecting the armed service's attitude toward cash management. Initially, the support was overwhelming but the influx of legislation is causing havoc and a change in attitude toward cash management.

It is not efficient to just implement the requirement of legislation because it is the law. Rather, the goal of the armed services should be to implement the legislation

in a manner that will ensure the effectiveness of the law is maximized. The initial plan for the Deficit Reduction Act will not allow this to occur.

### C. RECOMMENDATIONS

1. Since the focus of the Deficit Reduction Act is on collection and deposits, implementing the Treasury's regulation is only the initial step in developing a system for improving collections and deposits

The next step is performing an analysis of the cash flows and the development of an integrated, fully automated system to increase the processing of collection and deposits. Additional research efforts should address the problems in developing an information system that identifies areas for improvements, provides the necessary managerial reports, and identifies managers responsible for collection and deposits under their authority.

2. The Treasury must exercise their authority under the Deficit Reduction Act

The initial review proposed by DOD is satisfactory for the interim. To complete the implementation process, the Treasury should request a detailed plan from DOD. The plan should outline remaining cash flows and provide dates when reviews will be performed.

3. The Accounting and Finance Centers should improve their monitoring of subordinate activities.

To ensure that cash management is being performed effectively, the armed services' review programs are

needed. The services cannot rely on audit agencies to perform cash flow reviews. The Treasury's Cash Management Review Guide is appropriate for establishing a cash management review program. Subordinate activities should submit annual cash flow reviews to the accounting and finance centers for analysis. Improvements should be made where appropriate. The accounting and finance centers must pursue cash management effectiveness more actively.

4. The Treasury should introduce incentives to accompany the implementation of the Deficit Reduction Act.

Presently, there are no incentives to encourage and motivate the armed services to become aggressive toward cash management. One specific suggestion to reward the armed services would involve allocating a percentage of the savings resulting from the cash flow reviews to the service.

5. The armed services should increase their interactions.

The differences among the services should not affect the exchange of ideas, especially when confronted with the same problems. An example: the Army is encountering a problem with civilian personnel overseas. The Air Force's solution to this problem is to assign military personnel to the billets. But no inquiries are made between managers in each service. Their interaction to

discuss and plan legislative implementation programs should be the start of information sharing and not the end.

The implementation of the Deficit Reduction Act within DOD will be time consuming and a lingering issue unless the Treasury requests that DOD take immediate action to schedule implementation of the remaining cash flows. If the Treasury fails to act, final results of this legislation will be several years away.

Future research could: (1) trace the final DOD implementation of the Deficit Reduction Act; (2) perform an analysis of the Gramm-Rudman-Hollings and its effect on the deficit; and (3) perform a review of cash management legislation (intent and results).

APPENDIX:

Senate Activities Preceding Development of The  
Deficit Reduction Act of 1984

- 31 Oct 83    --    Senate committee on Finance approved  
its FY84 budget reconciliation  
recommendations and transmitted it  
to the Senate Committee on the  
Budget. The recommendation included  
revenue increases of \$21.2 billion  
over FY84 FY87 and spending reductions  
of \$4.1 billion over FY84 - FY87.
- 4 Nov 83    --    Budget committee Senate Report  
No. 98-300 included in the Finance  
Committee's revenue and spending  
recommendations as Title I (Deficit  
Reduction Act of 1983) of S. 2062  
(Omnibus Reconciliation Act of 1983).
- 15 and 16 Nov 83 -- Finance Committee met to consider  
additional deficit reduction proposals.
- 16 Nov 83    --    Finance Committee approved resolution  
to instruct the staffs of the Finance  
Committee and Joint Committee on  
Taxation in consultation with the  
Treasury Department, to draft a

deficiency reduction package to  
reduce the projected budget deficit  
for FY64-FY67.

12-14 Dec 83 -- Finance Committee held public hearing  
2-7 Feb 84 for further testimony  
on ways to reduce the federal deficit.

8 Feb 84 -- Public hearing held to consider  
additional testimony concerning  
deficit reduction proposals made by  
the President's Private Sector  
on Cost Control (Grace Commission).

21 Mar 84 -- Following a series of markups,  
the Finance Committee approved the  
Deficit Reduction proposals by a  
recorded vote of 20-0. (Ref. 5).

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